

Starpharma Annual Report 2009



Starpharma is a world leader in the development of dendrimer products for pharmaceutical, life science and other applications.

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Starpharma Holdings Limited
ABN 20 078 532 180

Starpharma Holdings Limited is listed on the Australian Securities Exchange (ASX: SPL) and its securities also trade in the United States under the American Depositary Receipts (ADR) Program on the OTCQX (OTCQX: SPHRY).

Starpharma is a world leader in the development of dendrimer nanotechnology for pharmaceutical, life-science and industrial applications. The Company has a valuable platform technology based on these dendrimers, which are man-made, highly defined nano-sized compounds. The unique properties of this technology are widely applicable both as enhancements to existing products and as entirely new products.

The Company aims to create shareholder value through the commercialisation of proprietary products based on its technology.

We have chosen to print the annual report hard copy on 100% recycled paper in an effort towards establishing more environmentally sustainable corporate practices.



Highlights 2008–2009

COMMERCIAL DEVELOPMENT

- SIGNING FULL LICENCE AGREEMENT WITH DUREX® FOR VIVAGEL® – COATED CONDOM
- SIGNING COLLABORATIVE RESEARCH, LICENCE AND COMMERCIALISATION AGREEMENT WITH ELI LILLY'S ANIMAL HEALTH DIVISION, ELANCO
- COMPLETION OF A\$7.1 MILLION CAPITAL RAISING
- DNT OPERATIONS FULLY INTEGRATED AND CASH FLOW POSITIVE
- MULTIPLE EARLY STAGE AGREEMENTS WITH DEVELOPERS OF IN VITRO DIAGNOSTIC PRODUCTS EXECUTED

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VIVAGEL® DEVELOPMENT

- DEVELOPMENT PROGRAM OF VIVAGEL® EXPANDS TO INCLUDE TREATMENT FOR BACTERIAL VAGINOSIS
- VIVAGEL® SHOWS ACTIVITY AGAINST ALL CLINICALLY RELEVANT HUMAN PAPILLOMAVIRUS (HPV) STRAINS
- CLINICAL TRIAL DEMONSTRATING THAT VIVAGEL® RETAINS POTENT AND SUSTAINED ANTIVIRAL ACTIVITY AGAINST HIV AND GENITAL HERPES FOLLOWING ADMINISTRATION TO WOMEN
- APPROVAL OF PATENT IN JAPAN COMPLETES GLOBAL IP PROTECTION STRATEGY

PIPELINE AND APPLICATION DEVELOPMENT

- STARPHARMA'S DENDRIMERS SHOWN TO REDUCE TOXICITY AND INCREASE HALF-LIFE OF A WIDELY USED CANCER DRUG
- EFFECTIVE ABSORPTION OF WATER CONTAMINANTS BY DENDRIMERS DEMONSTRATED

Chairman's Report



2 Dear Shareholders,

On behalf of the Board and management of Starpharma I am pleased to present the 2008–09 annual report for your review.

The last twelve months have been an exciting period for Starpharma with a number of significant developments achieved. The Company is in a strong financial position following a successful capital raising; our US subsidiary DNT is now cash flow positive; the VivaGel® product portfolio continues to produce promising clinical trial results and the Company's technology platform has opened up opportunities for new products and product extensions, leading to a range of potential avenues for revenue stream.

The commercialisation of the Company's lead product VivaGel® both as a condom coating and as a stand-alone gel remains a focal point for Starpharma, with recent positive clinical trial results adding to an already strong body of evidence pointing to the potential of VivaGel®.

As well as the development of VivaGel®, Starpharma has focused on advancing the Company's technology platform, identifying opportunities for new applications of its dendrimer technology to wider pharmaceutical, life-science and industrial uses.

This diversification of the Company's pipeline has been part of a strategy to expand on the potential for Starpharma's dendrimers to have a range of uses in everyday life. It has also allowed the Company to pursue partnerships with a number of international companies to develop Starpharma's products in an efficient and cost effective way. This strategy will contribute positively to increasing early revenue inflows.

In the last financial year the Company has secured two significant partnerships with leading global organisations SSL International and Eli Lilly's animal health division Elanco. This result is a testament to the successful partnering model that Management have driven aggressively over the last few years.

Partnering provides Starpharma with access to international networks and expertise, and has been an effective strategy in accelerating the development of the Company's products.

The Company has ended the 2008–09 financial year with a strong full year result. The capital raising of A\$7.1 million has strengthened the cash reserves of the Company and will be integral in the commercialisation of the VivaGel® product portfolio, and in the development of the broader product pipeline. In addition, management of operating costs has seen the Company's overall cash burn fall to A\$2.9 million from A\$6.1 million the previous year with increasing revenue and ongoing expense management.

Finally, our shareholder base was significantly strengthened with one of Australia's leading institutional investors Acorn Capital increasing its shareholding in Starpharma, and we welcomed the entry of three new Australian institutions and one international institution. This demonstrates a growing awareness of the short, medium and long-term potential of the Company with investors.

Starpharma's fundamentals – prudent and experienced management, current and near term revenue streams and a deep product pipeline – remain extremely attractive. I thank CEO Jackie Fairley and all staff both in Australia and the US for their dedication and commitment.

I would also like to thank our shareholders, both existing and new for their continued support as the Company continues to mature and build its commercial momentum.

A handwritten signature in black ink, appearing to read 'Peter T Bartels'. The signature is fluid and cursive, with a large initial 'P'.

PETER T BARTELS, AO
CHAIRMAN

Operational Report from the CEO



VivaGel® Product Range

It is forecast that the potential market size for microbicides in the developed world alone, may be US\$1–\$3.5 billion per year. Today, this opportunity remains untapped with no competitors yet to reach the market.

The development of the VivaGel® portfolio, including the condom coating and stand-alone vaginal microbicide product remains a focal point for Starpharma, and last year delivered encouraging results on a number of fronts.

VivaGel® trials produce promising results

The completion of patient testing to explore the duration of antiviral activity following the vaginal application of VivaGel® produced promising results in March 2009, further adding to the already positive body of evidence regarding the safety of VivaGel®. Preliminary clinical trial results indicated that the gel was well tolerated by the 12 healthy women who participated in the trial. This is in addition to results from three earlier trials of both men and women that also showed the gel to be safe and well tolerated.

More recently in August, Starpharma announced further positive clinical trial results showing that VivaGel® retains antiviral activity against the human immunodeficiency virus (HIV) and herpes simplex virus (HSV) in women for up to 24 hours after administration. The findings indicate a sustained action of the product with more than 90% of the initial antiviral activity retained for HIV and HSV in more than half of the trial participants. The results point to the potential for VivaGel® to be used other than immediately prior to sexual intercourse and are an important development as the Company prepares to advance to late stage clinical trials.

HPV – VivaGel® is active against all major cancer causing strains of papillomavirus strains

In December 2008, Starpharma announced pre-clinical results showing that VivaGel® inhibits all four strains of the human papillomavirus targeted by the Merck vaccine Gardasil and the two strains based on the GSK vaccine. In addition, the results demonstrated activity against HPV-31, which added to previous data showing activity against HPV-45. These two strains are often implicated in cervical cancers but existing vaccines do not include coverage for these virus strains.

Believed to be the only microbicide in clinical development for genital herpes

These two new developments for VivaGel® as a stand-alone product follow the results of a two-site expanded safety trial of VivaGel® for prevention of genital herpes. The trial of 54 women in the US and Kenya found that VivaGel® was safe and well tolerated when administered vaginally, twice daily for 14 days.

Operational Report from the CEO



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VivaGel®-coated condom

The signing of a full licence agreement with SSL International for the commercialisation of the VivaGel®-coated condom in September 2008 was a major advancement for Starpharma, and its achievement is seen as the Company's most significant commercial milestone to date.

The agreement to develop and market a VivaGel®-coated condom grants SSL International exclusive marketing rights to the product in most of the world, including Europe and the US. In turn Starpharma stands to gain in excess of A\$100m from the partnership through the receipt of development support, milestone payments and royalties from sales of the product.

SSL International has secured approximately 40% of the global branded condom market. Present in more than 100 countries, its Durex® brand is by far the world leader in condoms.



SSL International is the owner of the world's number one condom brand, Durex®.

SSL International controls approximately 40% of the US\$1.1B global market for branded condom sales.

"Innovation is key to SSL's strategy to keep sales growing and consumers interested"

Garry Watts, SSL International CEO

Drug Delivery

Starpharma's dendrimers have also shown significant commercial applicability in the area of drug delivery and optimisation. The Company has a growing list of pharmaceutical companies that are actively exploring the use of Starpharma's proprietary dendrimers to enhance their pharmaceutical products.

Dermatological applications

Starpharma continues its work with Steifel Laboratories, the first announced agreement under the Company's drug delivery program with one of the world's largest dermatology companies. Recently Steifel Laboratories was acquired by leading global pharmaceutical company GSK.

Animal health: a new application of Starpharma's dendrimers

The signing of a collaborative research, licence and commercialisation agreement with Elanco, the animal health division of US pharmaceutical company Eli Lilly. This deal marked the entry of Starpharma into this new and growing market sector.

The parties are collaborating to develop new animal health products with enhanced properties using Starpharma's dendrimer technology. Under the agreement, Starpharma will receive revenue from research fees, and is eligible for milestone payments and royalties on sale of any product developed.

Operational Report from the CEO



Dendrimer reduces toxicity and increases half-life of a widely used cancer drug

Starpharma has also made significant advances in applying its dendrimer technology to drug delivery and drug optimisation programs, with some particularly exciting results in cancer drugs.

In many cases, pharmaceuticals would be improved if they lasted longer in the body and if their side-effects were reduced. Dendrimers can achieve this by controlling where drugs go and how long they persist when they are introduced to the body.

A successful proof-of-concept animal study conducted by Starpharma this year demonstrated the broad applicability of its dendrimers to improve cancer drugs. The study found that when doxorubicin – a widely-used cancer drug – is combined with a Starpharma dendrimer, its plasma half-life is significantly extended and a marked reduction in its toxicity is achieved. Vitally, these significant improvements did not diminish the efficacy of the treatment.

The implication of this for human treatments which may be developed is that a larger dose of the drug could be used without harming the patient, increasing the ability of the treatment to kill tumours.

Other agreements

There are a number of other pharmaceutical collaborations entered into by Starpharma that remain confidential and subject to non-disclosure terms.

Life Science Applications

Deepening of *in vitro* diagnostics pipeline

Starpharma's dendrimer platform technology can also improve the reliability of *in vitro* diagnostic (IVD) tests by correctly orienting key detection molecules in the test kit, thus reducing the number of incorrect diagnoses.

This pipeline presents another opportunity for valuable additional revenue stream for Starpharma. The market for *in vitro* diagnostics is valued at US\$17.6 billion in the US alone and regulatory conditions mean that new IVD products can reach the market quickly, requiring as little as 1-2 years of development. Starpharma has worked hard over the last 12 months to strengthen its portfolio of related patents and further develop its IVD business.

Opportunities for laboratory reagents

In addition to these opportunities, Starpharma also receives income from sales and royalties from laboratory reagents. These arise as a result of our agreements with EMD, Qiagen and Sigma.

Operational Report from the CEO



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Financial Summary	2009 \$M	2008 \$M	%
Royalty, customer & licence revenue	2.0	1.4	43%
Grant income	7.7	8.2	(6%)
Interest and other income	0.1	0.3	(67%)
Total revenue and income	9.8	9.9	(1%)
Total expenditure	(14.1)	(18.1)	22%
Income tax credit	0.2	0.7	
Net loss	(4.1)	(7.5)	45%
Net cash outflow before new capital ("Cash Burn")	(2.9)	(6.1)	52%
New share capital net proceeds	7.0	3.5	
Cash at Bank	11.6	7.5	55%

Other Applications

Since 2007, DNT has been working on a US Department of Defense (DoD) sponsored water-remediation project in collaboration with Central Michigan University. In 2008 this work was strengthened with the commitment of a further US\$680,000 by the DoD.

In this application Starpharma's dendrimer technology works as a sponge soaking up toxic chemicals from groundwater. The Company is pleased to have recently reached a key milestone in the program showing that the dendrimer-based product has a substantially higher capacity to absorb water contaminants than the commercial resins currently used for the purpose.

Building on these findings, Starpharma continues to explore commercial opportunities more broadly in water remediation.

Overview of Financial Results

Revenue, cash containment and increasing cash reserves

Starpharma introduced a number of operational cost initiatives throughout the year, and together with increasing partnering revenues, the Company recorded a significant improvement in cash flow.

Capital raising during the year has taken the Company's cash reserves to A\$11.6 million. This will support the commercialisation of the VivaGel®-coated condom and with grant funding will advance the development program of the stand-alone gel, as well as support the broader product pipeline.

The last 12 months have seen Starpharma build increasing commercial momentum with the Company's new licensing deals highlighting the commercial relevance of Starpharma's dendrimer technology platform.



In combination with the existing revenues from the Company's US subsidiary DNT, royalty, customer and licence revenue has grown 43% in the year. Existing revenues are royalty bearing licences from Siemens Healthcare Diagnostics, Qiagen and EMD Merck.

Grant income for the year of A\$7.7 million from the United States and Australia has assisted in expanding the Company's research programs. Grants included contributions from the US National Institutes of Health grant for the VivaGel® development program, the US Department of Defense for its water remediation project, and the Australian Pharmaceutical Partnership Program (P3).

Operational initiatives throughout the year were focused on reducing the supporting activities of key research being undertaken within the Company. A significant achievement was the full integration of DNT's operations, with all financial and administrative functions now transferred to Starpharma's head office in Melbourne, Australia. As a result DNT is now cash flow positive.

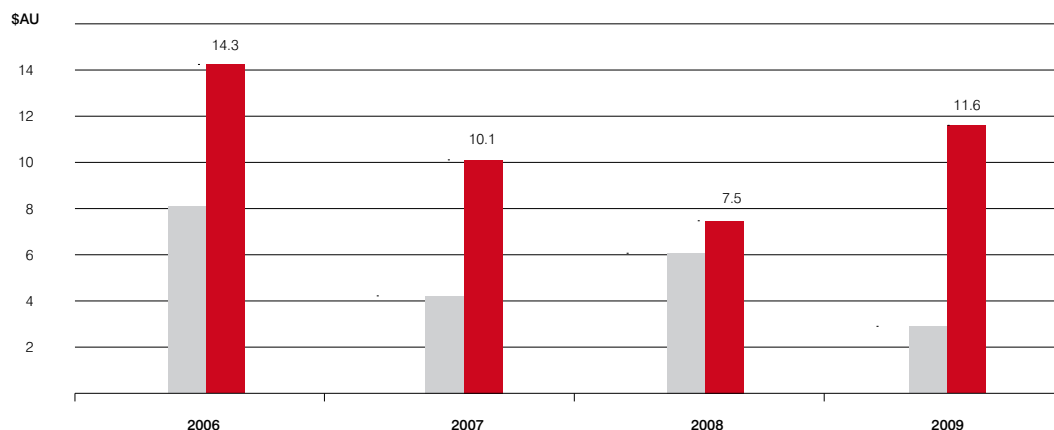
Outlook

Over the coming year we remain focused on advancing the development of our lead product VivaGel®, advancing other applications of our dendrimer technology platform, and finding new partners to increase revenue as well as strengthening and building upon our existing international partnerships.

In the near-term, we are excited about our collaboration with SSL International to commercialise the VivaGel®-coated condom. The partnership will secure international coverage of the product and Starpharma upon its launch and will no doubt be an exciting phase for the Company, offering Starpharma access to the vast global condom market.

Jackie Fairley

JACKIE FAIRLEY
STARPHARMA CEO



This graph demonstrates the current cash position of A\$11.6 million at 30 June 2009 and annual Cash Burn compared to previous years.

■ Cash Burn (Net cash outflow before new capital)
■ Cash Balance

About Starpharma



- 8 Starpharma is focused on commercialising products in three key areas, with each having the potential for substantial revenues:

VivaGel® and the VivaGel®-Coated Condom

VivaGel® is a vaginal microbicide gel that inactivates viruses that cause sexually transmitted infections. VivaGel®, the most advanced product in Starpharma's pharmaceutical pipeline, is under development both as a condom coating and as a stand-alone vaginal microbicide to prevent the spread of sexually transmitted infections such as genital herpes and HIV.

For the commercialisation of the VivaGel®-coated condom, Starpharma signed a full licence agreement with SSL International, the manufacturers and marketers of the world's best-selling condom brand Durex® in September 2008.

Other Medical and Life-Science Applications

Starpharma's platform technology enables it to create multiple products within the Company's core human pharmaceutical focus and beyond. This is a deliberate strategy to diversify the application of the Company's dendrimer technology to a range of possible uses and generate early revenues.

The recent signing of a collaborative research agreement with Eli Lilly's animal health division, Elanco has resulted in the expansion of Starpharma's development pipeline into the new area of animal health. In addition, Starpharma continues its programs in a range of fields including cancer, drug delivery, dermatology, arthritis and targeted diagnostics.

Life-science applications of Starpharma's dendrimers include laboratory transfection reagents for the introduction of nucleic acid into cells, and increasing the sensitivity and reliability of diagnostic tests for various human conditions. A licence agreement with Siemens Healthcare Diagnostics already generates royalties in this area, with further announcements expected in the near future.

Wider Applications of Dendrimers

Through DNT, Starpharma's platform technology is applicable to industrial applications as specialty chemicals with potential application in the cosmetic, ink, coatings and agricultural chemicals industries.

Dendrimers are also proving to have a compelling role in technologies aimed at ensuring the sustainability of the environment. In partnership with the Central Michigan University Research Corporation, Starpharma has been working with the US Department of Defense to apply its technology to the removal of toxic chemicals from groundwater, with results indicating that Starpharma's technology absorbs contaminants far more effectively than current methods. This could have significant and widespread benefits on environmental damage caused by industrial waste.

DNT also has an agreement with Unilever to use dendrimers as a research tool for the food industry.

Pipeline and Partnerships



Partnerships

Starpharma has demonstrated a successful partnering model with organisations that produce world-leading research and products. Partnering provides Starpharma with access to external expertise to capture new markets quickly and effectively whilst carefully managing expenditure. Starpharma's partnerships have been useful in accelerating the development of its products, and have enabled the Company to leverage the networks and expertise of organisations at the fore of their industry.

In the last financial year Starpharma has secured two significant partnerships with leading global organisations.

In September 2008, Starpharma announced the signing of a full licence agreement with SSL International (LSE: SSL), the maker of the world's leading condom Durex® for the commercialisation of the VivaGel®-coated condom.

SSL International now represents approximately 40% of the global market for branded condoms. This year, SSL International strengthened its position in the global market with the announcement that it had acquired majority ownership of two market leading companies in Russia and Eastern Europe. This acquisition has secured SSL greater coverage in the vast Russian market for condoms and represents a significant boost for Starpharma's exposure to the market as well.

"This year we have seen developments in all our product categories, positioning the Company to perform strongly in the short and long-term."







"Our partnership strategy has allowed the Company to accelerate its pipeline development through multiple licencing agreements with market-leading companies."

Jackie Fairley, Starpharma CEO

Pipeline and Partnerships



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PHARMA & MEDICAL				EARLY	LEAD / IN VIVO	CLINICAL	SALES
  undisclosed	VivaGel®	HSV-2 prevention >					
		HIV prevention >					
		Condom coating >					
							*
 ELANCO undisclosed	Drug Delivery	Cancer >					
		Dermatology >					
		Other >					
undisclosed	ADME Engineering	Protein Drug Optimization >					
undisclosed	Drug Optimization	Enhanced Solubilization >					
SIEMENS medical	in vitro Diagnostics	Stratus CS® (Cardiac) >					
 Baker IDI	MRI imaging	Targeted Contrast Agent >					
LIFE - SCIENCES				EARLY	PROTOTYPE	PRE-LAUNCH	SALES
	Gene Transfection Reagents	SuperFect® >					
	siRNA / DNA Transfection Reagents	PrioFect® >					

* Condom coating has the potential for an accelerated development program

Starpharma estimates that under the terms of the agreement with SSL International it will receive in excess of A\$100m from milestone and royalty payments and development support over the life of the patent. This deal represents a significant milestone for the Company and indicates the market potential of the product with both Starpharma and SSL International working with regulators to prepare to launch the VivaGel®-coated condom. SSL International is an ideal partner for Starpharma with a demonstrated commitment to growth through investment in innovation and progressive approach to building its condom business. Furthermore, despite the downturn in the market, this year SSL International has continued to grow with its sales of Durex® condoms increasing by 5.5% for the year end 31 March 2009.

More recently, Starpharma signed a collaborative research, licence and commercialisation agreement with Elanco, the animal health division of US pharmaceutical company Eli Lilly to develop new animal health products. Under the agreement, Starpharma will receive revenue from research fees, and is eligible for milestone payments and royalties on the sale of any product developed. Elanco will exploit the resulting products within the animal health field, which taken as a whole is reported to be worth about US\$19 billion globally.



COMMERCIAL PARTNERSHIPS

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PARTNER	PRODUCT	NATURE OF COMMERCIAL RELATIONSHIP
SSL International	VivaGel®-coated condom	Licensed – pre-market entry
Siemens Healthcare Diagnostics (Dade Behring)	Stratus CS®: cardiac marker diagnostic licence	Licensed and revenue generating
Qiagen	Gene transfection	Licensed and revenue generating
Merck KGaA	siRNA & DNA transfection reagents	Licensed and revenue generating
Elanco Animal Health (Eli Lilly & Company)	Animal health	Research collaboration, licence & commercialisation
Stiefel Laboratories	Drug delivery	Research collaboration
Sigma Aldrich	STARBURST® commercially available via Sigma Aldrich	Revenue generating
Unilever	Testing agent for food applications	R & D

Other partnerships

Starpharma also has a number of research collaborations with some of the world's leading research institutes and universities. The most significant is with the US National Institutes of Health, which has provided in excess of US\$30 million in grant and other funding support for its microbicide development program and VivaGel® specifically, a relationship that continues today. Other collaborations include The Baker IDI Heart and Diabetes Institute, Johns Hopkins University, Columbia University, University of North Carolina, University of Texas Medical Branch in Galveston, Burnet Institute, Melbourne Sexual Health Centre, Monash University and Central Michigan University Research Corporation.

Management



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JACKIE FAIRLEY, BSC, BVSC (HONS), MBA

Chief Executive Officer

Dr Fairley was appointed Chief Executive Officer of Starpharma on 1 July 2006 after serving in the role of Chief Operating Officer from July 2005. As CEO and a Director of the Board, Jackie's responsibilities include involvement in setting strategic direction, oversight of operations and financing activities for the group. She also plays an active role in driving key commercial negotiations and development programs and corporate activity. Jackie has more than 20 years' experience in the pharmaceutical and biotechnology industries working in business development and senior management roles with companies including CSL and Faulding (now Hospira). Former CEO of Cerylid Biosciences, Jackie also spent 5 years as Vice President for Faulding's injectable division and 5 years with CSL in various executive roles. She holds first class honours degrees in Science (pharmacology/pathology) and Veterinary Science, and has an MBA from the Melbourne Business School where she was the recipient of the Clemenger Medal.

PAUL BARRETT, BSC (HONS), PHD

Vice President, Business Development

Dr Barrett is responsible for the commercialisation of Starpharma's dendrimer technology into pharmaceutical and related fields. Since he joined Starpharma in 2005 the Company has signed a series of partnering and commercialisation agreements including a licence with a potential value of more than \$100m with SSL International for condom coating applications of VivaGel®, a wide ranging development and licencing agreement with Eli Lilly's Animal Health division Elanco, and a number of other collaborations in areas including drug delivery and *in vitro* diagnostics. Prior to joining Starpharma he held positions at Nortel Networks, Smiths Industries Aerospace, the University of Oxford and Bookham Technology. Dr Barrett is a co-author on 13 publications in both the physical and biological sciences.

DAVID OWEN, BSC (HONS), PHD

Vice President, Research

Dr Owen has extensive experience in medicinal chemistry and biochemistry, and in managing teams focused on commercially directed drug discovery. He has held several positions in the biotech industry, starting with Mimotopes (part of Mitokor Inc.) as a senior chemist, and has worked on projects for several major pharmaceutical companies. He was head of chemistry at Cerylid Biosciences, and later Glykoz, where he headed a team of chemists working on a new class of antibacterial agents. Dr Owen has expertise in many areas of chemistry, including the synthesis of natural products, peptides, carbohydrates and heterocyclic compounds, and has worked across therapeutic areas including type 2 diabetes, antimicrobials and anticancer agents. He is a co-author on 20 publications and 5 patents.

JEREMY PAULL, BSC (HONS), PHD

Vice President, Development and Regulatory Affairs

Dr Paull heads up Starpharma's preclinical and clinical development programs and manages the Company's interactions with international regulatory authorities. Jeremy also leads Starpharma's NIH-funded programs, and is responsible for successful collaborations with the Company's many international research and commercial development partners. Key priorities include the advancement of the VivaGel® stand-alone product through late-stage development, and the development of the coated condom product. Since joining Starpharma in 2001, Dr Paull's efforts have been integral to the advancement of the VivaGel® development program.



**NIGEL BAADE, BCOM, CPA, GRAD DIP ARTS
(DEVELOPMENT)**

Chief Financial Officer

Mr Baade is a CPA-qualified accountant with extensive experience in the pharmaceutical and biotechnology industries. Appointed to the position on 1 January 2009, he is responsible for the financial control and compliance of the Group. Mr Baade has experience in project and cost management of research activities, commercialisation of global business development opportunities, public and private equity raising and grant funding compliance.

Prior to joining Starpharma as Financial Controller in 2006, he has held positions at Hagemeyer, Cerylid Biosciences, Faulding (Hospira) and UMT (Fonterra). He holds qualifications from University of Tasmania and Monash University.

BEN ROGERS

Company Secretary

As Company Secretary Mr Rogers is the chief administrative officer of the Company and has the principal role of supporting the work of the Board. He has extensive experience in finance, corporate governance and HR management with CSIRO research laboratories and Co-operative Research Centres in Victoria, South Australia and Western Australia. Mr Rogers was a member of Starpharma's start-up/IPO management team and has been Company Secretary since February 1998. Until 31 December 2008 his responsibilities also included the role of Chief Financial Officer.

JEFF LINN, BSC

DNT Vice President, Business Development

In 2009 Mr Linn joined Starpharma with responsibility for commercialisation of the Company's Priostar dendrimer portfolio. Jeff has a 20 year track record of business development, sales and marketing in the fine chemicals and technology driven industries, and held positions in Dow Chemical, Great Lakes Chemical Company, and Vanguard Solutions Inc. He has built and managed multi-million dollar accounts with companies which include ICI, Akzo, DuPont and Ciba. In addition to his commercial experience Jeff has specialist product knowledge across a range of chemistry-related areas, including specialty chemical additives, paints and coatings, polymers and agricultural chemicals.

Our Commitment to Corporate and Social Responsibility

How Starpharma meets the key criteria for many ethical investors

- *Products which address serious unmet healthcare needs – HIV and other STIs*
- *Products and technologies which address issues prevalent in developing countries*
- *Water management technology*
- *Strives for Best Practice in employee recruitment and management*
- *Environmentally responsible technology and practices*

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In VivaGel®, Starpharma is pioneering a new technology targeting the prevention of sexually transmitted infections (STIs) such as genital herpes and HIV/AIDs. These diseases are having devastating impacts on individuals, communities and health systems in both developed and developing countries and with no viable cure on the horizon have reached worldwide epidemic status.

Every day nearly one million people acquire a new STI with approximately 7300 new HIV infections and 5500 deaths occurring daily. Many of these are young women. These are alarming statistics – yet little progress has been made to curb their prevalence. Starpharma's research has the potential to significantly change the face of the global STI epidemic offering investors the opportunity to play a part in this as well.

Microbicides have received widespread support from the international research community and have a champion in US President Barack Obama who introduced the Microbicide Development Act in 2007 to accelerate their development. Microbicides have been lauded as the answer to slowing the STI epidemic and are widely recognised as products that will empower women to take responsibility for their own sexual health and protect themselves against these serious diseases.

Yet it is not just Starpharma's work on VivaGel® that provides investors a compelling case for investment based on ethical criteria. Starpharma's subsidiary Dendritic Nanotechnologies Inc (DNT) has been working with the US Department of Defense since 2007 to develop its proprietary technology to purify water.

Water is a finite resource in short supply around the world, placing water self-sufficiency high on the agenda of many countries. Accordingly water purification technologies are increasingly becoming a priority for government's that are geared towards sustainability.

Starpharma is working to develop water remediation technology using its dendrimer-based technology. This technology is intended to act as a sponge, soaking up toxic chemicals leaving it purer and more useable as a result. This technology has the potential to address another important global issue and has the potential to yield further royalty income in the future.

Looking internally Starpharma's board and management are committed to achieving the highest standards of corporate governance in decision-making, legislative compliance and financial and ethical behavior. All employees are encouraged to actively participate in the management of environmental and work place safety issues, and the Company has adopted a Code of Conduct covering areas such as harassment, bullying and equal opportunity employment practices.

Directors' Report

Your directors have pleasure in presenting this report on the consolidated entity (referred to hereafter as the Group) consisting of Starpharma Holdings Limited and the entities it controlled at the end of, or during, the year ended 30 June 2009.

Directors

The following persons were directors of Starpharma Holdings Limited ("the Company") during the whole of the financial year and up to the date of this report:

P T Bartels (Chairman)
R Dobinson

J W Raff (Deputy Chairman)
P J Jenkins

J K Fairley (Chief Executive Officer)
R A Hazleton

Principal Activities

The principal activities of the Group consist of development and commercialisation of dendrimer products for pharmaceutical, life-science and other applications. Activities within the Company are directed towards the development of precisely defined nano-scale materials, with a particular focus on the development of its topical vaginal microbicide VivaGel® for the prevention of genital herpes and HIV, and the application of dendrimers to drug delivery and other life science applications.

More broadly, through partners the Company is also exploring dendrimer opportunities in materials science with applications in areas such as adhesives, lubricants and water remediation. These activities are managed by the Company's wholly owned subsidiaries Starpharma Pty Ltd. in Melbourne, Australia and Dendritic Nanotechnologies, Inc ("DNT") in Michigan, USA. Products based on the Company's dendrimer technology are on the market in the form of diagnostic elements and laboratory reagents.

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Business Objectives

The Company aims to create value for shareholders through the commercialisation of proprietary products based on its dendrimer nanotechnology in three key areas:

- > VivaGel® (topical microbicide and condom coating)
- > Other Medical and Life Science Applications
- > Industrial Applications of Dendrimers

Dividends

No dividends were paid or declared during the period and no dividends are recommended in respect to the financial year ended 30 June 2009. (2008: Nil)

Review of Operations

Achievements and significant events during the 2009 financial year included:

July 2008 Development program for VivaGel® expanded to include the treatment of Bacterial Vaginosis (BV)

Preliminary findings from Starpharma's clinical trials suggested that VivaGel® treatment may restore the normal balance of bacteria in women who had asymptomatic BV at the time of enrolment in the trial. This is the first application of VivaGel® as a treatment. BV is a major cause of vaginal infection and is particularly prevalent in the US, where it is reported to affect 29% of women.

August 2008 VivaGel® retention of activity clinical trial commenced

The study in 12 women was designed to determine the timescale over which VivaGel® retains activity against HIV and HSV-2 (genital herpes) following vaginal administration. The objective of the trial was to give an indication of how long before sex VivaGel® could be applied to prevent infection, as well as providing a potential surrogate for antiviral efficacy ahead of Phase 3 clinical studies.

16 September 2008 Signing of a Full Licence Agreement with SSL International for the VivaGel®-coated condom

A full licence agreement was signed with SSL International plc (LSE:SSL) in relation to the VivaGel®-coated condom. SSL manufactures and sells Durex® condoms, the market-leading condom brand worldwide. Under the terms of the agreement SSL has secured marketing rights to the VivaGel®-coated condom in most of the world, including Europe and the USA. It is estimated that receipts under the agreement comprising royalties on SSL sales, further milestone payments, and development support has the potential to exceed \$100 million. The agreement is considered by Starpharma to be the Company's most important commercial milestone to date.

October 2008 Key VivaGel® Patent Approved in Japan

A key patent relating to the use of dendrimers to protect against sexually transmitted infections was approved in Japan, completing patent coverage for VivaGel® and the VivaGel®-coated condom in all major markets including Europe, the US and Japan.

December 2008 SPL7013 shows activity against all major clinically relevant human papillomavirus (HPV) strains

SPL7013, the active ingredient VivaGel®, was shown in pre-clinical studies to inhibit all four strains of HPV targeted by the two marketed cervical cancer vaccines. SPL7013 has now been shown to have *in vitro* activity against HPV-16 and -18, which account for approximately 70% of cervical cancers; and HPV-6 and -11, which together account for approximately 90% of the incidence of genital warts. In addition, SPL7013 was shown to be active against cancer-causing HPV-31 and -45, neither of which are included in the existing vaccines.

December 2008 Starpharma Dendrimer Reduces Toxicity of Cancer Drug

A Starpharma dendrimer combined with a widely-used cancer drug (doxorubicin) achieved a significant extension of the drug's plasma half-life and a marked reduction in drug toxicity compared to administration of the drug alone. In this proof-of-concept animal study the efficacy of the dendrimer-drug construct was equivalent to that of the drug alone.

March 2009 Retention of activity study – patient testing completed

Completion of patient testing in the retention of activity clinical trial of VivaGel® that commenced in August 2008. Vaginal samples were collected from each study participant up to 24 hours after five separate VivaGel® applications for *in vitro* analysis of anti-HIV and anti-HSV-2 (genital herpes) activity. Full trial results were announced subsequent to the end of this financial year and are noted below.

April/May 2009 Equity raising of A\$7.1 million by a share placement and share purchase plan (SPP)

\$5.1 million was raised from existing and new institutional and sophisticated investors, and existing shareholders contributed an additional \$2 million through a SPP. Shares in the placement and SPP were issued at \$0.26 per share. The placement was led by Acorn Capital, with a leading Australian institution and a significant European fund among a number of new institutions participating.

May 2009 Signing of a collaborative research, license and commercialisation agreement with Elanco

Elanco is the animal health division of Eli Lilly and Company. This agreement is an example of Starpharma's partnering strategy which is aimed at commercially exploiting the dendrimer technology across a range of markets.

Financial Summary

For the year ended 30 June 2009 the consolidated entity incurred an operating loss after income tax of \$4,127,000 (June 2008: \$7,491,000).

Year Ended 30 June

	2009 \$'000	2008 \$'000
Summary of Consolidated Results		
Revenue from continuing operations	2,124	1,709
Other income	7,691	8,212
Research and development expenditure	(9,988)	(12,224)
Administration expenditure	(4,128)	(5,816)
Finance costs and impairment of financial assets	(28)	(103)
Income tax credit	202	731
Loss attributable to members	(4,127)	(7,491)

Income Statement

Revenue consisted of royalty, licensing and customer revenue from partners including Siemens Healthcare (Dade Behring), Qiagen, EMD Biosciences and SSL International. Other income consisted of grant income from United States and Australian Government grants, which partly offset research and development expenditure. The majority of US Government grants were from the US National Institutes of Health for VivaGel® development costs. All research and development expenditure, including patenting costs, were fully expensed in the current and previous corresponding period. Administration expenditure includes the amortisation of patent intangibles.

Balance Sheet

At 30 June 2009 the Group's cash position was \$11,595,000 (2008: \$7,482,000). There was an increase in contributed equity of \$6,973,000 on the completion of a private placement and share purchase plan in April/May 2009.

Cash flow Statement

Net operating cash outflow for the year was \$4,029,000 (2008: \$5,352,000). Favourable exchange rate movements resulted in an overall cash burn of \$2,860,000 (2008: \$6,064,000) for the year. Cash flow from financing activities included the proceeds from the issue of shares.

Earnings per share	2009	2008
Basic loss per share	\$0.02	\$0.04
Diluted loss per share	\$0.02	\$0.04

Significant changes in the state of affairs

There was an increase in contributed equity of \$6,973,000 on the completion of a private placement and share purchase plan in April/May 2009. The fully paid ordinary shares were issued at a price of \$0.26 per share.

Matters subsequent to the end of the financial year

On 3 August 2009, Starpharma announced results of the clinical study designed to assess retention of antiviral activity following vaginal administration of VivaGel® in women. The study showed that cervicovaginal fluid samples (CVS) obtained immediately after vaginal administration of VivaGel® provided effectively complete inhibition of HIV and HSV infection *in vitro*. At 1 and 3 hours following administration of product, the initial high level of inhibition of HIV and HSV was retained in all women tested. Even at 12 and 24 hours following administration, more than 90% of the initial antiviral activity was retained for both HIV and HSV in more than half of the women tested. This is the first clinical study to demonstrate potent antiviral activity of any microbicide beyond one hour after administration of the product in humans.

These data indicate the potential for VivaGel® to be used other than immediately prior to sexual intercourse (*i.e.*, as a coitally-dissociated microbicide). However, future testing in clinical efficacy studies is required to confirm this. There were no serious adverse events during the study, and the data indicate VivaGel® was safe and well-tolerated in the study.

No other matters or circumstances have arisen since 30 June 2009 that have significantly affected, or may significantly affect: (a) the consolidated entity's operations in future financial years, or (b) the results of the operations in future financial years, or (c) the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

In the opinion of the directors, the Group will continue its activities as described.

Additional comments on expected results of operations of the Group are included in this report under the review of operations. Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Regulatory Environment

There were no significant changes in laws or regulations during the 2009 financial year or since the end of the year affecting the business activities of the Group, and the directors are not aware of any such changes in the near future.

Environmental regulation

The Group is subject to environmental regulations and other licences in respect of its laboratory facilities in Melbourne (Victoria, Australia) and Mt Pleasant (Michigan, USA). There are adequate systems in place to ensure compliance with relevant Federal, State and Local environmental regulations and the Directors are not aware of any breach of applicable environmental regulations by the Group.

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Legal

At the date of the Directors' Report there are no significant legal issues.

Health and Safety

The Board, CEO and senior management team of the Group are committed to providing and maintaining a safe and healthy working environment for the Company's employees and anyone entering its premises or with connection to the Company's business operations. The Company has adopted an Occupational Health and Safety (OH&S) Policy and has established OH&S Committees as part of its overall approach to workplace safety. Further details of the Company's policy and practices are set out in the corporate governance statement on page 37 of this annual report.

Information on Directors

Peter T Bartels AO, FAISM, FRS (age 68)

Independent non-executive director
Chairman

129,804 ordinary shares in Starpharma Holdings Limited

Member of remuneration & nomination committee
Member of audit & risk committee

Independent non-executive director and Chairman for six years. Previously CEO and Managing Director of Coles Myer Ltd and before that CEO and Managing Director of Fosters Brewing Company Ltd. Has also had broad-based experience in the pharmaceutical industry in previous roles with DHA Pharmaceuticals and Abbott Laboratories. Past Chairman of the Australian Sports Commission, the Australian Institute of Sport, the Commonwealth Heads of Government Committee for Sport and the Women's and Children's Health Service.

Other current directorships of listed entities: None

Former directorships of listed entities in last 3 years: None

Information on Directors

John W Raff Dip. Ag Sc, BSc, PhD (age 60)

Non-executive director
Deputy Chairman

7,280,777 ordinary shares in Starpharma Holdings Limited

Former CEO of Starpharma, holding the position for nine years until his retirement on 1 July 2006. Previously General Manager of the Biomolecular Research Institute. Co-founder, director and major shareholder of a technology based agricultural seed company. Chairman, BioMelbourne Network. Also founder and investor in a number of other start-up technology companies.

Other current directorships of listed entities: None

Former directorships of listed entities in last 3 years: None

Jacynth (Jackie) K Fairley BSc, BVSc (Hons), MBA (age 46)

Executive director
Chief Executive Officer

53,750 ordinary shares in Starpharma Holdings Limited
650,000 options over ordinary shares in Starpharma Holdings Limited

Dr Fairley was appointed Chief Executive Officer of Starpharma on 1 July 2006 after serving in the role of Chief Operating Officer from July 2005. As CEO and a Director of the Board, Jackie's responsibilities include involvement in setting strategic direction, oversight of operations and financing activities for the group. She is also plays an active role in driving key commercial negotiations and development programs and corporate activity. Jackie has more than 20 years' experience in the pharmaceutical and biotechnology industries working in business development and senior management roles with companies including CSL and Faulding (now Hospira). Former CEO of Cerylid Biosciences, Jackie also spent 5 years as a Vice President for Faulding's injectable division and 5 years with CSL in various executive roles. She holds first class honours degrees in Science (pharmacology/pathology) and Veterinary Science, and has an MBA from the Melbourne Business School where she was the recipient of the Clemenger Medal.

Other current directorships of listed entities: None

Former directorships of listed entities in last 3 years: None

Ross Dobinson B Bus (Acc) (age 57)

Independent Non-executive director
Chairman of audit & risk committee
Chairman of remuneration & nomination committee

Nil ordinary shares in Starpharma Holdings Limited

Non-executive director for twelve years. Merchant banker with a background in investment banking and stockbroking. Has acted as corporate director for two leading stockbrokers, and was an executive director of the NAB's corporate advisory subsidiary. Later headed the Corporate Advisory Division of Dresdner Australia Ltd. Managing Director of TSL Group Ltd, a corporate advisory company specialising in establishing and advising life sciences companies. Also a director of a number of unlisted companies.

Other current directorships of listed entities:

Non-executive director of Acrux Ltd (director since 2000 and Chairman since 31 January 2006)

Former directorships of listed entities in last 3 years:

Roc Oil Company Limited (director June 1997 to 31 December 2007)

Richard A Hazleton BScHE, MScHE, HonDrEngr, HonDrCommSci (age 67)

Independent Non-executive director
Member of remuneration & nomination committee

142,616 ordinary shares in Starpharma Holdings Limited

Independent non-executive director since 1 December 2006. Former chairman of US-based global corporation Dow Corning. Joined Dow Corning in 1965 and held numerous positions in engineering, manufacturing and finance, both in the US and Europe, before becoming Chief Executive Officer of the company in 1993, and Chairman of the Board of Directors and CEO in 1994. Retired from Dow Corning in 2001. Chairman of Dendritic Nanotechnologies Inc (DNT) from 2004 until Starpharma's acquisition of the company in October 2006. Has served on the Boards of the American Chemistry Council and the Chemical Bank and Trust Company (Midland, MI, USA) as well as several non-profit social service agencies in Michigan and Belgium.

Other current directorships of listed entities: None

Former directorships of listed entities in last 3 years: None

Information on Directors

Peter J Jenkins MB, BS (Melb), FRACP (age 63)

Independent Non-executive director
Member of audit & risk committee

1,416,000 ordinary shares in Starpharma Holdings Limited

Independent non-executive director for twelve years. Consultant physician and gastroenterologist. Holds clinical and research positions with the Alfred Hospital and has held clinical research positions with the Baker Medical Research Centre. Former judge of the Australian Technology Awards. Executive Director of AusBio Ltd, an unlisted public biotechnology company.

Other current directorships of listed entities: Nil

Former directorships of listed entities in last 3 years:
Non-executive director and chairman of bio-pharmaceutical company Immuron (formerly Anadis Ltd), resigned February 2009

Company Secretary

The Company Secretary is Mr Ben Rogers (age 61). He was a member of Starpharma's start-up/IPO management team and has been Company Secretary since February 1998, with responsibilities that included the role of Chief Financial Officer until 31 December 2008. Mr Rogers has extensive experience in finance, corporate governance and HR management with CSIRO research laboratories and Co-operative Research Centres and is an affiliate of Chartered Secretaries Australia.

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Meetings of Directors

The number of meetings of the Company's Board of directors and of each committee held during the year ended 30 June 2009, and the numbers of meetings attended by each director were:

Name	Full meetings of directors		Meetings of committees
		Audit & risk	Remuneration & nomination
P T Bartels	8 of 8	2 of 3	2 of 2
J W Raff	8 of 8	N/A	N/A
J K Fairley	8 of 8	N/A	N/A
R Dobinson	5 of 8	3 of 3	2 of 2
P J Jenkins	7 of 8	3 of 3	N/A
R Hazleton	8 of 8	N/A	2 of 2

The table above illustrates the number of meetings attended compared with the number of meetings held during the period that the director held office or was a member of the committee. N/A denotes that the director is not a member of the relevant committee.

Retirement, election and continuation in office of Directors

Dr John Raff retires by rotation as director at the annual general meeting and, being eligible, offers himself for re-election.

Dr Peter Jenkins retires by rotation as director at the annual general meeting and, being eligible, offers himself for re-election.

Remuneration Report

The Remuneration report is set out under the following main headings:

- A. Principles used to determine the nature and amount of remuneration
- B. Details of remuneration
- C. Service Agreements
- D. Share-based compensation
- E. Additional Information

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

A. Principles used to determine the nature and amount of remuneration

The objective of the company's remuneration policy is to ensure appropriate and competitive reward for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders. The remuneration and nomination committee, consisting of three independent non-executive directors, advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

Directors' fees

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration. Non-executive directors do not receive share options or bonuses. Non-executive directors' fees are reviewed annually by the remuneration and nomination committee, but have not been increased since 1 January 2004. Fees and payments are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The aggregate amount currently stands at \$450,000 which was approved by shareholders on 15 November 2006. This amount (or some part of it) is to be divided among the non-executive directors as determined by the Board. The aggregate amount paid to non-executive directors for the year ended 30 June 2009 was \$180,000 (2008: \$280,000). Non-executive directors do not receive any performance-related remuneration or retirement allowances. Superannuation contributions required under the Australian superannuation guarantee legislation continue to be made and are deducted from the directors' overall fee entitlements.

Relationship between executive reward and company financial performance

The Company's remuneration policy aligns executive reward with the interests of shareholders. The primary focus is on sustained growth in shareholder value through achievement of R&D and commercial milestones, and therefore the remuneration policy is not directly linked to financial performance determined by losses or short term share price performance. The Company has incurred losses in this financial year and in the previous 4 financial years and has no certainty that this will change in the near term. Remuneration is set based on key performance indicators (KPIs) which include (but are not limited to) successful negotiations of commercial contracts, achieving key research and development milestones, and ensuring the availability of adequate capital to achieve stated objectives.

Executive pay structure

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the Group's operations.

The executive pay and reward framework comprises:

- > base pay and benefits,
- > short term performance incentives,
- > long term incentives through participation in the Starpharma Employee Share Option Plan, and
- > superannuation.

Other factors taken into account in determining remuneration packages include demonstrated record of performance, internal relativities, data from a national biotechnology salary survey and the Company's ability to pay. With the exception of the CEO, executive service agreements do not include pre-determined bonus or option allocations, but cash incentives (bonuses) may be awarded, or share options offered at the end of the performance review cycle for specific contributions, or upon achievement of significant Company milestones at the discretion of the Board. Following a performance evaluation, the amount of possible bonus payable to each executive is determined by the remuneration and nomination committee, taking into account factors including the accountabilities of the role and impact on the Company. There are no guaranteed base pay increases in any executives' contracts.

A. Principles used to determine the nature and amount of remuneration

Starpharma Employee Share Option Plan

All executives and staff are eligible to participate in the Starpharma Employee Share Option Plan. The objective of the Plan is to assist in the recruitment, reward, retention and motivation of employees of the company. Options are granted under the Plan for no consideration. The exercise price of options granted under the Plan must be not less than the market price at the time the decision is made to invite a participant to apply for options. The exercise price is usually calculated on the basis of 15% above market price. Market price is calculated as the volume-weighted average price (VWAP) of the shares in the 15 days preceding the approval to grant the options. The vesting period is 1 to 2 years from the date of grant, with the exercise period 2 to 3 years from the end of the vesting period. Options granted under the plan carry no dividend or voting rights. Each option is personal to the participant and is not transferable,

transmissible, assignable or chargeable, except with the written consent of the remuneration and nomination committee. Further information on the Starpharma Employee Share Option Plan is set out in note 30 to the financial statements.

Performance review and development

Executives and all other staff participate in a formal two stage performance review and development process consisting of an objectives planning and development session at the commencement of the annual cycle and a performance and salary review towards the end of the cycle. The objective of the salary review is to ensure that all employees are appropriately remunerated for their contribution to the company, that remuneration is competitive within the relevant industry sector, and that increases in employees' skills and responsibilities are recognised. During the year an evaluation of all executives and other staff took place in accordance with this process.

B. Details of remuneration

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Details of the nature and amount of each element of the remuneration of each director of Starpharma Holdings Limited and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) and the specified executives of the Starpharma Holdings Limited and the consolidated entity are set out in the following tables. The key management personnel of Starpharma Holdings Limited include the directors as per pages 18 to 20. The key management personnel of the Starpharma Holdings Limited Group include the directors as per pages 18 to 20 above and the following executive officers, which include the five highest paid executives of the entity:

N J Baade	Chief Financial Officer (from 1 January 2009, previously Financial Controller until 31 December 2008)
C P Barrett	VP, Business Development
R I Berry	President, Dendritic Nanotechnologies, Inc (until 16 December 2008)
J K Fairley	Chief Executive Officer
D J Owen	VP, Research
J R Paull	VP, Development and Regulatory Affairs
B P Rogers	Company Secretary (and Chief Financial Officer until 31 December 2008)

Directors and Key management personnel of Starpharma Holdings Limited

2009	Short-term benefits			Post-employment		Long-term benefits	Share-based payment	Total
	Cash salary and fees	Cash bonus #	Non-monetary benefits	Super-annuation	Retirement Benefits	Long service leave	Options #	
Name	\$	\$	\$	\$	\$	\$	\$	\$
Non-executive directors								
P T Bartels <i>Chairman</i>	–	–	–	60,000	–	–	–	60,000
J W Raff <i>Deputy Chairman</i>	–	–	–	30,000	–	–	–	30,000
R Dobinson	30,000	–	–	–	–	–	–	30,000
P J Jenkins	–	–	–	30,000	–	–	–	30,000
R A Hazleton	30,000	–	–	–	–	–	–	30,000
	–	–	–	40,000	–	–	–	40,000
Subtotal non-executive directors	60,000	–	–	120,000	–	–	–	180,000
Executive directors								
J K Fairley	301,777	50,000	3,442	49,998	–	412	32,212	437,841
Totals	361,777	50,000	3,442	169,998	–	412	32,212	617,841

All performance related remuneration, including cash bonuses and options granted, are determined to be a 'at risk' component of total remuneration.

Directors and Key management personnel of Starpharma Holdings Limited

2008	Short-term benefits			Post-employment		Long-term benefits	Share-based payment	
Name	Cash salary and fees	Cash bonus #	Non-monetary benefits	Super-annuation	Retirement Benefits	Long service leave	Options #	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Non-executive directors								
P T Bartels <i>Chairman</i>	–	–	–	80,000	–	–	–	80,000
J W Raff <i>Deputy Chairman</i>	–	–	–	40,000	–	–	–	40,000
R Dobinson	40,000	–	–	–	–	–	–	40,000
P J Jenkins	36,697	–	–	3,303	–	–	–	40,000
R A Hazleton	40,000	–	–	–	–	–	–	40,000
P M Colman ¹ (from 1/07/2007 – 11/02/2008)	22,936	–	–	2,064	–	–	–	25,000
L Gorr ² (from 1/07/2007 – 14/11/2007)	13,761	–	–	1,239	–	–	–	15,000
Subtotal non-executive directors	153,394	–	–	126,606	–	–	–	280,000
Executive directors								
J K Fairley	295,869	150,000	4,458	53,040	–	14	23,499	526,880
Totals	449,263	150,000	4,458	179,646	–	14	23,499	806,880

All performance related remuneration, including cash bonuses and options granted are at risk.

¹ Prof P M Colman retired as a director on 11 February 2008

² Mr L Gorr retired as a director on 14 November 2007.

B. Details of remuneration

Directors and Key management personnel of Starpharma Holdings Limited or subsidiary companies

2009	Short-term benefits			Post-employment		Long-term benefits	Share-based payment	Total
	Cash salary and fees	Cash bonus [#]	Non-monetary benefits	Super-annuation	Retirement Benefits	Long service leave	Options [#]	
Name	\$	\$	\$	\$	\$	\$	\$	\$
Non-executive directors								
P T Bartels <i>Chairman</i>	–	–	–	60,000	–	–	–	60,000
J W Raff <i>Deputy Chairman</i>	–	–	–	30,000	–	–	–	30,000
R Dobinson	30,000	–	–	–	–	–	–	30,000
P J Jenkins	–	–	–	30,000	–	–	–	30,000
R A Hazleton	30,000	–	–	–	–	–	–	30,000
Subtotal non-executive directors	60,000	–	–	120,000	–	–	–	180,000
Executive directors								
J K Fairley	301,777	50,000	3,442	49,998	–	412	32,212	437,841
Other Key Management Personnel								
B P Rogers ¹	63,561	6,932	9,935	79,894	–	4,125	11,929	176,376
J R Paull	158,381	11,927	10,326	23,048	–	3,240	12,464	219,386
C P Barrett	160,380	11,927	1,030	31,259	–	219	13,571	218,386
N J Baade ²	148,858	10,092	235	14,306	–	228	11,937	185,656
D J Owen	138,764	9,174	493	13,314	–	191	14,150	176,086
R I Berry ³ (1/07/2008 – 16/12/2008)	107,209	–	8,025	18,150	117,026	–	8,022	258,432
Totals	1,138,930	100,052	33,486	349,969	117,026	8,415	104,285	1,852,163

[#] All performance related remuneration, including cash bonuses and options granted are at risk.

¹ B P Rogers relinquished his responsibilities as Chief Financial Officer on 31 December 2008. He remains Company Secretary.

² N J Baade was appointed Chief Financial Officer on 1 January 2009; he previously held the position of Financial Controller.

³ R I Berry was President of Dendritic Nanotechnologies Inc, until 16 December 2008.

Directors and Key management personnel of Starpharma Holdings Limited or subsidiary companies
2008

Name	Short-term benefits			Post-employment		Long-term benefits	Share-based payment	Total
	Cash salary and fees	Cash bonus [#]	Non-monetary benefits	Super-annuation	Retirement Benefits	Long service leave	Options [#]	
	\$	\$	\$	\$	\$	\$	\$	\$
Non-executive directors								
P T Bartels <i>Chairman</i>	–	–	–	80,000	–	–	–	80,000
J W Raff <i>Deputy Chairman</i>	–	–	–	40,000	–	–	–	40,000
R Dobinson	40,000	–	–	–	–	–	–	40,000
P J Jenkins	36,697	–	–	3,303	–	–	–	40,000
R A Hazleton	40,000	–	–	–	–	–	–	40,000
P M Colman ¹ (1/07/2007 – 11/02/2008)	22,936	–	–	2,064	–	–	–	25,000
L Gorr ² (1/07/2007 – 14/11/2007)	13,761	–	–	1,239	–	–	–	15,000
Subtotal non-executive directors	153,394	–	–	126,606	–	–	–	280,000
Executive directors								
J K Fairley	295,869	150,000	4,458	53,040	–	14	23,499	526,880
Other Key Management Personnel								
B P Rogers	74,612	–	11,899	80,838	–	6,576	19,122	193,047
J R Paull	148,758	10,000	11,942	22,300	–	4,044	21,544	218,588
C P Barrett	151,750	10,000	1,366	26,880	–	201	19,531	209,728
N J Baade	132,762	7,000	327	18,489	–	123	19,122	177,823
D J Owen	137,618	–	358	12,386	–	206	14,276	164,844
R I Berry	195,138	–	13,567	6,830	–	–	29,959	245,494
Totals	1,289,901	177,000	43,917	347,369	–	11,164	147,053	2,016,404

[#] All performance related remuneration, including cash bonuses and options granted are at risk.

¹ Prof P M Colman retired as a director on 11 February 2008

² Mr L Gorr retired as a director on 14 November 2007.

C. Service Agreements

Remuneration and other terms of employment for the CEO and the specified executives are formalised in service agreements which include a formal position description and set out duties, rights and responsibilities, and entitlements on termination. Each of these agreements provides for the provision of performance-related cash bonuses, and other benefits including participation, when eligible, in the Starpharma Holdings Employee Share Option Plan. Other major provisions of the agreements relating to remuneration are set out below.

J K Fairley — Chief Executive Officer

- > No fixed term of agreement
- > Base salary, inclusive of superannuation, per annum as at 30 June 2009 of \$360,650, to be reviewed annually by the remuneration committee.
- > A maximum cash bonus of \$150,000 per year, commencing on 1 July 2008 allocated proportionately on the achievement of predetermined objectives.
- > The remuneration & nomination committee is in the process of developing a specific long term incentive plan for Dr Fairley after the recent changes in share and option legislation. Shareholder approval for this plan will be sought once agreement has been reached on the quantum and relevance of performance hurdles.
- > Fringe benefits consist of on-site car parking.
- > Subject to termination at any time by:
 - (i) the Executive giving to the Company twelve months' notice in writing; or
 - (ii) the Company giving to the Executive six months' notice in writing. If the Company gives notice in accordance with this clause, the Executive will be entitled to a termination payment upon the expiration of the notice period, of an amount equal to 6 months' total remuneration.
- > The Executive's employment may be terminated by the Company at any time without notice if the Executive:
 - (i) is guilty of serious misconduct;
 - (ii) becomes unable to pay the Executive's debts as they become due; or
 - (iii) is found guilty by a court of a criminal offence.

B P Rogers — Company Secretary (and Chief Financial Officer until 31 December 2008)

- > No fixed term of agreement.
- > Base salary, inclusive of superannuation, per annum as at 30 June 2009 of \$131,500 part-time, to be reviewed annually by the remuneration committee.
- > Fringe benefits consist of on-site car parking.
- > Payment of termination benefit on termination by the employer, other than for serious breach of obligations to the employer, wilful neglect of duty or serious misconduct, equal to thirteen weeks gross remuneration.

J R Paull — VP – Development and Regulatory Affairs

- > No fixed term of agreement.
- > Base salary, inclusive of superannuation, per annum as at 30 June 2009 of \$191,200, to be reviewed annually by the remuneration committee.
- > Fringe benefits consist of on-site car parking.
- > Subject to termination at any time by:
 - (i) the Executive giving to the Company not less than three months written notice; or
 - (ii) the Company giving to the Executive written notice, or payment in lieu of that notice, which notice period shall be six months.

- > The Executive's employment may be terminated by the Company at any time without notice for serious breach of obligations to the employer, wilful neglect of duty, serious misconduct or bankruptcy.

C P Barrett — VP – Business Development

- > No fixed term of agreement.
- > Base salary, inclusive of superannuation, per annum as at 30 June 2009 of \$195,700, to be reviewed annually by the remuneration committee.
- > Subject to termination at any time by:
 - (i) the Executive giving to the Company not less than two months written notice; or
 - (ii) the Company giving to the Executive written notice, or payment in lieu of that notice, which notice period shall be four months.
- > The Executive's employment may be terminated by the Company at any time without notice for serious breach of obligations to the employer, wilful neglect of duty, serious misconduct or bankruptcy.

N J Baade — Chief Financial Officer (from 1 January 2009, previously Financial Controller)

- > No fixed term of agreement.
- > Base salary, inclusive of superannuation, per annum as at 30 June 2009 of \$169,500, to be reviewed annually by the remuneration committee.
- > Subject to termination at any time by:
 - (i) the Executive giving to the Company not less than two months written notice; or
 - (ii) the Company giving to the Executive written notice, or payment in lieu of that notice, which notice period shall be four months.
- > The Executive's employment may be terminated by the Company at any time without notice for serious breach of obligations to the employer, wilful neglect of duty, serious misconduct or bankruptcy.

D J Owen — VP – Research

- > No fixed term of agreement.
- > Base salary, inclusive of superannuation, per annum as at 30 June 2009 of \$157,500, to be reviewed annually by the remuneration committee.
- > Subject to termination at any time by:
 - (i) the Executive giving to the Company not less than three months written notice; or
 - (ii) the Company giving to the Executive written notice, or payment in lieu of that notice, which notice period shall be three months.
- > The Executive's employment may be terminated by the Company at any time without notice for serious breach of obligations to the employer, wilful neglect of duty, serious misconduct or bankruptcy.

R I Berry — President – Dendritic Nanotechnologies, Inc (until 16 December 2008)

- > No fixed term of agreement.
- > Minimum annual base salary of US\$175,000 until 16 December 2008.
- > Subject to termination by the Company without cause by giving the Executive 30 days notice, in which case the Executive shall be entitled to payment of salary for six months.
- > Subject to termination by the Executive giving the Company 90 days written notice.
- > Subject to termination by the Company for serious breach of obligations to the Company or conviction of a felony involving moral turpitude, other criminal acts or illegal acts that are injuries to the Company, in which case the Executive shall receive salary and benefits including unused vacation through to the effective date of such termination, and no severance amount or termination payments or benefits of any nature.

D. Share-based compensation

Options are granted under the Starpharma Holdings Limited Employee Share Option Plan (ASX code SPLAM) ("the Plan") which was approved by shareholders at the 2007 annual general meeting. All employees of the Company or associated companies are eligible to participate in the plan. Options are granted under the plan for no consideration and when exercised, enable the holder to subscribe for one fully paid ordinary share of the Company to be allotted not more than ten business days after exercise, at the exercise price. The vesting period is 1 to 2 years from the date of grant, and the exercise period is 2 to 3 years from the end of the vesting period.

The vesting period is usually 2 years from the date of grant, and the exercise period usually 2 years from the end of the Vesting Period.

The terms and conditions of each grant of options affecting remuneration of each director of the company and the key management personnel of the group in this or future reporting periods are as follows:

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Grant date	Date exercisable	Expiry date	Exercise price	Value per option at grant date	% vested
4 July 2005	5 July 2007	4 July 2010	\$0.94	\$0.15	100%
18 July 2005	19 July 2007	18 July 2010	\$0.94	\$0.16	100%
6 October 2006	6 October 2008	6 October 2010	\$0.50	\$0.24	100%
4 April 2007	4 April 2009	4 April 2011	\$0.50	\$0.14	100%
14 November 2007	4 April 2009	4 April 2011	\$0.50	\$0.16	100%
14 November 2007	8 August 2009	8 August 2011	\$0.50	\$0.17	Nil
1 January 2009	29 August 2009	28 August 2012	\$0.29	\$0.11	Nil
29 June 2009	29 June 2011	28 June 2014	\$0.37	\$0.23	Nil

Options granted under the Plan carry no dividend or voting rights. The weighted average remaining contractual life of share options outstanding at the end of the period was 2.45 years (2008: 2.10 years).

Fair value of options granted

The weighted average assessed fair value at grant date of options granted to key management personnel during the year ended 30 June 2009 was \$0.17 per option (2008: \$0.16). The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option.

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

Information in assessing the fair value of options granted to each director of the company and the key management personnel of the group during the year ended 30 June 2009 and the prior year were as follows:

D. Share-based compensation

Options granted on:	2009		2008	
	1 January 2009	29 June 2009	14 November 2007	14 November 2007
Number of options granted	600,000	600,000	150,000	200,000
Expiry date	28 August 2012	28 June 2014	4 April 2011	8 August 2011
Exercise price	\$0.29	\$0.37	\$0.50	\$0.50
Expected price volatility of the company's shares	88.2%	92.4%	59.8%	59.8%
Risk-free interest rate	5.7%	5.7%	6.3%	6.3%
Expected dividend yield	–	–	–	–
Share price at grant date	\$0.20	\$0.33	\$0.39	\$0.39
Assessed fair value	\$0.11	\$0.23	\$0.16	\$0.17

Shares issues on the exercise of options

No shares in Starpharma Holdings Limited have been issued on the exercise of options in either the current or prior year.

Share options granted to directors and key management personnel

Details of options over unissued ordinary shares of Starpharma Holdings Limited provided as remuneration to any of the directors or the key management personnel of the Company and consolidated entity with greatest authority as part of their remuneration were as follows:

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Name	Number of options granted during the year		Number of options vested during the year	
	2009	2008	2009	2008
J K Fairley	–	350,000	150,000	800,000
B R Rogers	200,000	–	200,000	–
J R Paull	275,000	–	200,000	–
C P Barrett	275,000	–	200,000	100,000
N J Baade	225,000	–	200,000	–
D J Owen	225,000	–	200,000	–
R I Berry	–	–	250,000	–

The options were granted under the Starpharma Holdings Limited Employee Share Option Plan on the dates indicated. Details of options granted to the directors and the five most highly remunerated officers of the Group can be found in section D of the remuneration report on pages 27 to 28. No options have been granted to directors or key management personnel since the end of the year. No other directors or key management personnel hold options under the Plan.

E. Additional Information

Principles used to determine the nature and amount of remuneration and the relationship between remuneration and company performance are set out in section A of the Remuneration Report.

Details of remunerations: cash bonuses and options

For each cash bonus and grant of options included in the tables on pages 21 to 29, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria and in consideration in the company's ability to pay.

No part of the bonuses is payable in future years. The options vest over the specified periods providing vesting criteria are met. No options will vest if the conditions are not satisfied, hence at 30 June 2009 the minimum value of the options yet to vest is nil. The maximum value of the options yet to vest has been determined assuming all conditions are met.

Name	Cash bonus			Options				
	Paid %	Forfeited %	Year Granted	Vested %	Forfeited %	Financial years in which options may vest	Minimum total value of grant yet to vest	Maximum total value of grant yet to vest
J K Fairley	100% ¹	— ¹	2009					
			2008	100%	—	30/06/2009	Nil	—
			2007	100%	—	30/06/2008	Nil	—
B P Rogers	100%	—	2009	—	—	30/06/2011	Nil	34,370
			2007	100%	—	30/06/2009	Nil	—
J R Paull	100%	—	2009	—	—	30/06/2011	Nil	45,708
			2007	100%	—	30/06/2009	Nil	—
C P Barrett	100%	—	2009	—	—	30/06/2011	Nil	45,708
			2007	100%	—	30/06/2009	Nil	—
			2006	100%	—	30/06/2008	Nil	—
N J Baade	100%	—	2009	—	—	30/06/2011	Nil	40,218
			2007	100%	—	30/06/2009	Nil	—
D J Owen	100%	—	2009	—	—	30/06/2011	Nil	40,218
			2007	100%	—	30/06/2009	Nil	—
R I Berry	—	—	2007	100%	—	30/06/2009	Nil	—

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¹ In 2009 J K Fairley offered and the Board agreed to reduce the maximum bonus payable to \$50,000 in view of the Company's cash reserves at that time.

Share-based compensation: Options

Further details relating to options are set out below.

Name	A Remuneration consisting of options	B Value at grant date \$	C Value at exercise date \$	D Value at lapse date \$
J K Fairley	7.4%	—	—	—
B P Rogers	6.8%	34,370	—	—
J R Paull	5.7%	45,708	—	—
C P Barrett	6.2%	45,708	—	—
N J Baade	6.4%	40,218	—	—
D J Owen	8.0%	40,218	—	—
R I Berry	3.1%	—	—	—

A = The percentage of the value of remuneration consisting of options, based on the value of options expensed during the current year.

B = The value at grant date calculated in accordance with AASB 2 *Share-based Payments* of options granted during the year as part of remuneration.

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the options at the date.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

E. Additional Information

Shares under option

Unissued ordinary shares of Starpharma Holdings Limited under option at the date of this report are as follows:

Grant date	Expiry date	Issue price of shares	Number under options
31 December 2004	31 December 2009	\$0.94	86,000
4 July 2005	4 July 2010	\$0.94	300,000
18 July 2005	18 July 2010	\$0.94	100,000
6 October 2006	6 October 2010	\$0.50	1,038,000
2 January 2007	2 January 2011	\$0.52	20,000
4 April 2007	4 April 2011	\$0.50	590,000
21 August 2007	31 August 2012	\$0.43	7,567,119
12 October 2007	31 August 2009	\$0.43	10,000
31 October 2007	07 August 2011	\$0.50	410,000
14 November 2007	4 April 2011	\$0.50	150,000
14 November 2007	8 August 2011	\$0.50	200,000
1 January 2009	28 August 2012	\$0.29	1,458,000
29 June 2009	28 June 2014	\$0.37	1,444,000

No option holder has any right under the options to participate in any other issue of the company or of any other entity.

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Insurance of officers

During the financial year, Starpharma Holdings Limited arranged to insure the directors and executive officers of the Company and related bodies corporate. The terms of the policy prohibit disclosure of the amount of the premium paid. The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings.

This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Audit & non audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the consolidated entity are important. Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below. The board of directors has considered the position and, in accordance with the advice received from the audit and risk committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- > all non-audit services have been reviewed by the audit & risk committee to ensure they do not impact the impartiality and objectivity of the auditor
- > none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year the following fees were paid or payable for services provided by the auditor (PricewaterhouseCoopers) of the parent entity, its related practices and non-related audit firms

	2009 \$	2008 \$
Assurance Services		
Audit or review of financial reports of the entity or any entity in the consolidated entity under the <i>Corporations Act 2001</i>	129,000	102,684
Other assurance services – Grant reviews & program audits:	22,500	22,500
Audits performed by other auditors of controlled entities:	27,137	68,186

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No taxation or advisory services have been provided in either the current or prior year.

Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 32.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of the Directors.



Peter T Bartels, AO
Director

Melbourne, 24 August 2009

PricewaterhouseCoopers
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MELBOURNE VIC 3001
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Auditor's Independence Declaration

As lead auditor for the audit of Starpharma Holdings Limited for the year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Starpharma Holdings Limited and the entities it controlled during the period.



Nadia Carlin
Partner
PricewaterhouseCoopers

Melbourne
24 August 2009

Corporate Governance Statement

Starpharma Holdings Limited ("the Company") and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board guides and monitors the Company's activities on behalf of the shareholders. In developing policies and setting standards the Board considers the Australian Securities Exchange ("ASX") Corporate Governance Principles and Recommendations (Second Edition 2007) ("the CGC Recommendations"). The Corporate

Governance Statement set out below describes the Company's current corporate governance principles and practices which the Board considers to comply with the CGC Recommendations. All of these practices, unless otherwise stated, were in place for the entire year. This corporate governance statement is available on the Company's website. The company and its controlled entities together are referred to as the Group in this statement.

1. The Board of Directors

The relationship between the Board and senior management is critical to the Group's long term success. The directors are responsible to the shareholders for the performance of the Group in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed. Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are delegated by the Board to the Chief Executive Officer ("CEO"). These delegations are reviewed on an annual basis.

1.1 Board charter

The charter of the Board of Starpharma Holdings Limited, matters reserved for the board and matters delegated to the CEO are set out below.

1.1.1 Board Composition

- > The Board is to be composed of both executive and non-executive directors with a majority of non-executive directors.
- > In recognition of the importance of independent views and the Board's role in supervising the activities of management the Chairman must be an independent non-executive director, the majority of the Board must be independent of management and all directors are required to bring independent judgement to bear in their Board decision making.
- > The Chairman is elected by the full Board and meets regularly with the CEO.
- > The Board may decide to appoint one of the non-executive directors as Deputy Chairman.
- > The Company is to maintain a mix of directors on the Board from different backgrounds with complementary skills and experience.
- > The Board is to undertake an annual Board performance review and consider the composition, structure, and role of the Board and individual responsibilities of directors.
- > The minimum number of directors is three and the maximum is fifteen unless the Company passes a resolution varying that number.
- > There is no requirement for a director to hold shares in the Company.

1.1.2 Functions Reserved for the Board

The Company has established matters reserved for the board. These are:

- (a) Strategic Issues
 - > approving the Company's corporate strategy;

- > overseeing and monitoring organisational performance and the achievement of the Group's strategic goals and objectives;
- > approving any major transaction not included in the budget or outside the ordinary course of the business;
- > determining the structure of the Company and the definition of the business;
- (b) Shareholding Items
 - > issuing shares or options;
 - > granting special rights to shares;
 - > determining the amount of a dividend;
- (c) Financial Items
 - > approving the Company's credit policy;
 - > reviewing and approving the annual budget and financial plans including available resources and major capital expenditure initiatives;
 - > seeking credit in excess of \$50,000;
 - > giving any guarantee or letter of credit or any security over the Company's assets;
- (d) Expenditure Items
 - > approval of the annual and half-year financial reports
 - > approving expenditure exceeding \$100,000, unless reimbursable by an external funding body in which case the limit is \$250,000;
 - > approving divestments of assets exceeding \$50,000
- (e) Audit
 - > Approving appointment or removal of external auditors;
 - > Considering any external audit reports;
- (f) Board and Senior Management
 - > Establishing corporate governance policies;
 - > Appointment, performance assessment and, if necessary, removal of the CEO
 - > Determining remuneration of CEO
 - > Ratifying the appointment and, if necessary, the removal of senior executives;

1.1.3 Other Board Responsibilities

- > Enhancing and protecting the reputation of the Group;
- > Overseeing the operation of the Group, including its systems for control, accountability, and risk management;
- > Monitoring financial performance;
- > Liaison with the Company's auditors;
- > Ensuring there are effective management processes in place and approving major corporate initiatives;
- > Reporting to shareholders.

1.2 Board members

Details of the members of the Board, their experience,

1. The Board of Directors

qualifications, term of office and independent status are set out in the directors' report under the heading "Information on Directors". There are five non-executive directors, four of whom are deemed independent under the principles set out below, and one executive director at the date of signing the directors' report. The Board seeks to ensure that:

- > at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or fresh perspective; and
- > the size of the Board is conducive to effective discussion and efficient decision-making.

1.3 Directors' independence

The Company has adopted specific principles for assessing the independence of directors: To be deemed independent, a director must be a non-executive and:

- > not be a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company;
- > within the last three years, not have been employed in an executive capacity by the Company, or been a director after ceasing to hold any such employment;
- > within the last three years, not have been a principal of a material professional adviser or a material consultant to the Company, or an employee materially associated with the service provided;
- > not be a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- > must have no material contractual relationship with the Company other than as a director;
- > be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

Materiality for the purposes of applying these criteria is determined on both quantitative and qualitative bases. An amount of 5% of the individual director's net worth is considered material, and in addition a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance.

A substantial shareholder for the purposes of applying these criteria is a person with a substantial shareholding as defined in section 9 of the *Corporations Act*. The Company has also considered directors' periods of service on the board, particularly in the context of the long term nature of the Company's research, development and commercialisation activities, and has concluded that length of service does not, and should not reasonably be perceived to, adversely impact upon a director's ability to act in the best interests of the company.

Under these criteria the Board has determined that all non-executive directors were independent at the date of this report with the exception of Dr J W Raff, who was an executive director until 1 July 2006, and has remained a director since ceasing employment in an executive capacity.

1.4 Term of office

The Company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting following their last election, and that one third of non-executive directors (or if their number is not a multiple of

three then the number nearest to one third) retire at every annual general meeting and be eligible for re-election.

1.5 Chairman and Chief Executive Officer (CEO)

The current Chairman Mr Peter Bartels is an independent non-executive director appointed in 2003. The CEO Dr Jackie Fairley was appointed as a director and CEO on 1 July 2006. The Chairman is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's senior executives. The Board has established the functions delegated to the CEO. The CEO is responsible for implementing Company strategies and policies, and for the day to day business operations of the Group in accordance with the strategic objectives of the Group as approved of the Board from time to time.

The Board policy is for these separate roles of Chairman and CEO to be undertaken by separate people.

1.6 Commitment

The Board held eight meetings during the year. Meetings are usually held at the Company's corporate offices and laboratory facility in the Baker Building, 75 Commercial Road, Melbourne, Australia. The number of meeting of the Board and of each Board committee held during the year ended 30 June 2009, and the number of meetings attended by each director is disclosed in the Directors' Report. The commitments of non-executive directors are considered by the remuneration and nomination committee prior to their appointment to the Board and are reviewed each year as part of the annual performance assessment. Prior to appointment or being submitted for re-election each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

1.7 Conflict of interests

Directors are expected to avoid any action, position or interest that may result in a conflict with an interest of the Company. A director who has a material personal interest in a matter that relates to the affairs of the Company must give notice of such interest and is precluded from participating in discussions or decision making on such dealings.

1.8 Independent professional advice

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required, but this approval will not be unreasonably withheld.

1.9 Performance assessment

The Board undertakes an annual self assessment of its performance. Each director is asked to consider matters such as composition, structure and role of the Board, and performance of individual directors. The Chairman then meets individually with each director to discuss the assessment. During the year an assessment of the Board and its committees was conducted in accordance with these procedures. The CEO's performance is assessed taking into account attainment of predetermined targets or goals based on various financial and other measurable indicators related to the Company. The CEO meets with the remuneration and nomination committee annually to discuss attainment of key performance indicators of both the CEO and the senior management team.

2. Corporate reporting

The Company prepares audited financial statements for each year ending 30 June, and reviewed financial statements for each half year period ending 31 December. In accordance with ASX Listing Requirements the annual financial statements (preliminary final report) is lodged with the ASX by 31 August, and half year statements are lodged with the ASX by 28 February each year. The CEO and the CFO have made the following certifications to the Board for the year ended 30 June 2009:

- > that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards; and
- > that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

3. Board committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. The committee structure and membership is reviewed on an annual basis. Board committees are chaired by an independent director other than the Chairman of the Board. Where applicable matters determined by committees are submitted to the full Board as recommendations for Board decisions. Current committees of the Board are the following:

3.1 Audit and risk committee

The Company has established an audit and risk committee, which consists of the following independent non-executive directors:

Mr Ross Dobinson (Chairman)
Mr Peter Bartels
Dr Peter Jenkins

Details of these directors' qualifications and attendance at committee meetings are set out in the directors' report pages 18 to 20. The audit and risk committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industry in which the Group operates. The committee meets at least twice a year, and has direct access to the Company's auditors. The charter of this committee is to:

- > review and report to the Board on the annual report, the half-year financial report and all other financial information published by the company or released to the market
- > assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
 - > effectiveness and efficiency of operations
 - > reliability of financial reporting
 - > compliance with applicable laws and regulations
- > oversee the effective operation of the risk management framework by:
 - > ensuring the effective implementation of the risk management policy and program
 - > defining risk threshold levels for referral to the Board
 - > ensuring that an effective system of internal compliance and control is in place
 - > ensuring staff charged with risk management responsibilities have appropriate authority to carry out their functions and have appropriate access to the audit and risk committee
 - > ensuring the allocation of sufficient resources for the effective management of risk

- > recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance
- > consider the independence and competence of the external auditor on an ongoing basis
- > review and monitor related party transactions and assess their propriety
- > assist the Board in the development and monitoring of statutory compliance and ethics programs
- > provide assurance to the Board that it is receiving adequate, up to date and reliable information
- > report to the Board on matters relevant to the committee's role and responsibilities.

In fulfilling its responsibilities, the audit and risk committee:

- > receives regular reports from management and the external auditors;
- > reviews the processes the CEO and CFO have in place to support their certifications to the board;
- > reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved;
- > meets separately with the external auditors at least twice a year without the presence of management;
- > provides the external auditors with a clear line of direct communication at any time to either the Chairman of the committee or the Chairman of the board.

The audit and risk committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

3.2 Remuneration and nomination committee

The Company has established an remuneration and nomination committee which consists of the following independent non-executive directors:

Mr Ross Dobinson (Chairman)
Mr Peter Bartels
Mr Richard Hazleton

Details of these directors' attendance at committee meetings are set out in the directors' report on page 20.

3. Board committees

The charter of the remuneration and nomination committee is to:

- > conduct annual reviews of board membership having regard to present and future needs of the Company and make recommendations on board composition and appointments
- > conduct an annual review of and conclude on the independence of each director
- > propose candidates for board vacancies
- > oversee board succession including the succession of the Chairman
- > oversee the annual assessment of board performance
- > advise the board on remuneration and incentive policies and practices generally
- > make specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

When the need for a new director is identified or an existing director is required to stand for re-election, the committee reviews the range of skills, experience and expertise on the board, identifies its needs and prepares a short-list of candidates with appropriate skills and experience. Where necessary, advice is sought from independent search consultants. Each member of the senior executive team has signed a formal employment contract covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. Each contract refers to a specific formal position description which is reviewed by the committee as necessary in consultation with the CEO and relevant executive. The remuneration and nomination committee's terms of reference include responsibility for reviewing any transaction between the organisation and the directors, or any interest associated with the directors, to ensure the structure and the terms of the transaction are in compliance with the *Corporations Act 2001* and are appropriately disclosed. The Remuneration Report is set out on pages 21 to 30.

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4. External auditors

The Company's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually. The current auditors are PricewaterhouseCoopers who have been the external auditors of the Company since it commenced operations. It is PricewaterhouseCoopers policy to rotate audit engagement partners on listed companies at least every five years, and the current audit engagement partner assumed responsibility for the conduct of the audit in 2008. An analysis of fees paid to the

external auditors, including a break-down of fees for non-audit services, is provided in note 22 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit and risk committee. The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

5. Risk assessment and management

The Board, through the audit and risk committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. The Company operates in a challenging and dynamic environment, and risk management is viewed as integral to realising new opportunities as well as identifying issues that may have an adverse effect on the Company's existing operations and its sustainability. The Company is committed to a proactive approach towards risk management throughout its entire business operations. The Board aims to ensure that effective risk management practices become embedded in the Company culture and in the way activities are carried out at all levels in the Company. The Board and Management recognise the importance that risk management plays in ensuring the business is able to fully capitalise on the opportunities available to it as well as mitigating potential loss. Health and Safety (see item 6) are considered to be of paramount importance and are the focus of significant risk management activities within the

company. Other risk areas that are addressed include business continuity and disaster recovery, reputation, intellectual property, product development and clinical trials. Adherence to the Code of Conduct (see item 7) is required at all times and the board actively promotes a culture of quality and integrity. The Board has required management to design and implement a risk management and internal control system to manage the Group's material business risks. The risk management policy, which is available on the Company website, sets out policies for the oversight of material business risks, and describes the responsibilities and authorities of the Board, the audit and risk committee, the CEO, CFO, Company Secretary, and the senior management team. The CEO, CFO and Company Secretary are responsible to the Board for the overall implementation of the risk management program. During the financial year management has reported to the board as to the effectiveness of the Group's management of its material risks.

6. The environment, occupational health and safety

The Company recognises the importance of environmental issues and is committed to the highest levels of performance. There are adequate systems in place to ensure compliance with environmental regulations, and employees are encouraged to actively participate in the management of environmental and Occupational Health and Safety (OH&S) issues. In order to conduct activities within Australia the wholly owned subsidiary Starpharma Pty Ltd has obtained the necessary accreditations, laboratory certifications and licenses from the applicable Commonwealth and State authorities. In the US the wholly owned subsidiary DNT has obtained the necessary accreditations, laboratory certifications and licenses as applicable from Central Michigan University, State of Michigan and US federal authorities. The directors are not aware of any breach of applicable environmental regulations.

The Company has adopted an OH&S Policy and has established OH&S committees at each of its sites as part of its overall approach to workplace safety. These committees provide a forum for management and employees to consult on health and safety matters. The primary role of the committees is to coordinate the development and implementation of OH&S policy and procedures, to consider any work related safety matters or incidents, and to ensure compliance with relevant legislation and guidelines. Each committee includes representatives of executive management and members representing each operational area generally in proportion to the number of people working in the area and the perceived safety risks associated with working in that area. The OH&S committees meet on a monthly basis.

7. Code of conduct

The directors are committed to the principles underpinning best practice in corporate governance, with a commitment to the highest standards of legislative compliance and financial and ethical behaviour. The Company has established a code of conduct reflecting the core values of the Company and setting out the standards of ethical behaviour expected of directors, officers and employees in all dealings and relationships including with shareholders, contractors, customers and

suppliers, and with the Company. Areas covered include employment practices, equal opportunity, harassment and bullying, conflicts of interest, use of company assets and disclosure of confidential information. The code of conduct is available in the Corporate Governance section of the Company's website (www.starpharma.com).

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8. Trading in Company securities

The purchase and sale of Company securities by directors, executives and employees is only permitted (subject also to complying with applicable laws) during the thirty day period following the annual general meeting and the release to the market of the half yearly and annual financial results, unless prior approval is given to each transaction by the Chairman. Except with the prior approval of the Chairman, no director or executive may enter into any transaction which would have the effect of hedging or otherwise transferring to any other person the risk of any fluctuation in the value of:

- (a) securities in the Company which are subject to a restriction on disposal under an employee share or incentive plan; or
- (b) options or performance rights (or any unvested securities in the Company underlying them).

The Company's share trading policy is discussed with each new employee as part of their induction training.

9. Continuous disclosure and shareholder communication

The Company has developed a continuous disclosure and shareholder communication policy to ensure compliance with the ASX Listing Rules and to facilitate effective communication with shareholders. A copy of this policy is available on the Company's website.

The Board has appointed the Company Secretary as the person responsible for disclosure of information to the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

Procedures have been established for reviewing whether there is any price sensitive information that should be disclosed to the market, or whether any price sensitive information may have been inadvertently disclosed. All ASX announcements are posted on the Company's website as soon as practicable after release to the ASX. Announcements are also posted on the OTCQX website (www.otcqx.com) in order to provide timely disclosure to US investors trading in the Company's Level One ADRs (OTCQX:SPHY).

Annual Financial Report

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This financial report covers both the separate financial statements of Starpharma Holdings Limited as an individual entity and the consolidated financial statements for the consolidated entity consisting of Starpharma Holdings Limited and its subsidiaries. The financial report is presented in the Australian currency.

Starpharma Holdings Limited is a company limited by shares, incorporated and domiciled in Australia.

Its registered office and principal place of business is:

Starpharma Holdings Limited
Baker Building, 75 Commercial Road
Melbourne, Victoria, 3004, Australia

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations in the directors' report on pages 15 to 16, which is not part of this financial report.

The financial report was authorised for issue by the directors on 24 August 2009. The directors have the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available on our website: www.starpharma.com.

Income statements

For the year ended 30 June 2009

		Consolidated		Parent	
	Notes	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Revenue from continuing operations	5	2,124	1,709	371	414
Other income	5	7,691	8,212	–	–
Administration expense		(4,128)	(5,816)	(1,237)	(2,661)
Research and development expense		(9,988)	(12,224)	–	–
Provision for impairment of receivables	10	–	–	(16)	(3,758)
Finance costs		(28)	(27)	–	–
Impairment of financial assets		–	(76)	–	(40)
Loss before income tax		(4,329)	(8,222)	(882)	(6,045)
Income tax credit	7	202	731	–	–
Loss attributable to members of Starpharma Holdings Limited		(4,127)	(7,491)	(882)	(6,045)
Loss per share for loss from continuing operations attributable to ordinary equity holders of the company					
Basic loss per share	29	(\$0.02)	(\$0.04)		
Diluted loss per share		(\$0.02)	(\$0.04)		

The above income statements should be read in conjunction with the accompanying notes.

Balance Sheets

As at 30 June 2008

		Consolidated		Parent	
	Notes	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current Assets					
Cash and cash equivalents	8	11,595	7,482	8,267	2,420
Trade and other receivables	9	1,581	1,773	289	197
Total current assets		13,176	9,255	8,556	2,617
Non-current assets					
Receivables	10	–	–	3,389	2,631
Property, plant and equipment	11	447	758	–	–
Intangible assets	12	15,224	14,640	2,692	3,144
Other financial assets	13	–	–	16,252	16,252
Total non-current assets		15,671	15,398	22,333	22,027
Total assets		28,847	24,653	30,889	24,644
Current Liabilities					
Trade and other payables	14	1,764	1,623	1,566	1,477
Borrowings	15	133	124	–	–
Provisions (Employee Entitlements)		316	417	–	–
Deferred income		930	1,551	–	–
Total current liabilities		3,143	3,715	1,566	1,477
Non-current liabilities					
Borrowings	16	160	293	–	–
Provisions (Employee Entitlements)		20	37	–	–
Deferred income		25	97	–	–
Deferred tax liabilities	17	–	128	–	–
Total non-current liabilities		205	555	–	–
Total liabilities		3,348	4,270	1,566	1,477
Net assets		25,499	20,383	29,323	23,167
Equity					
Contributed equity	18	85,640	78,667	85,640	78,667
Reserves	19	3,279	1,009	1,903	1,838
Accumulated losses	20	(63,420)	(59,293)	(58,220)	(57,338)
Total equity		25,499	20,383	29,323	23,167

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of changes in equity

For the year ended 30 June 2009

		Consolidated		Parent	
	Notes	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Total equity at the beginning of the year		20,383	25,724	23,167	25,631
Exchange differences on translation of foreign operations	19	2,061	(1,532)	–	–
Net income recognised directly in equity		2,061	(1,532)	–	–
Loss for the year		(4,127)	(7,491)	(882)	(6,045)
Total recognised income and expense for the year		(2,066)	(9,023)	(882)	(6,045)
Transactions with equity holders in their capacity as equity holders:					
Employee share options	19	209	209	65	108
Fair value of options granted in private placement	19	–	1,033	–	1,033
Contributions of equity, net of transaction costs	18	6,973	2,440	6,973	2,440
Total equity at the end of the year		25,499	20,383	29,323	23,167

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Cash flow Statements

For the year ended 30 June 2009

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		Consolidated		Parent	
	Notes	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Cash flow from operating activities					
Receipts from trade and other debtors		1,745	1,168	–	–
Grant income (inclusive of GST)		7,074	8,566	–	–
Payments to suppliers and employees (inclusive of GST)		(12,898)	(15,357)	(1,165)	(1,667)
Interest received		78	298	28	235
Interest paid		(28)	(27)	–	–
Net cash outflows from operating activities	27	(4,029)	(5,352)	(1,137)	(1,432)
Cash flow from investing activities					
Loans advanced to subsidiaries		–	–	(462)	(4,897)
Receipts from property, plant and equipment		2	–	–	–
Payments for property, plant and equipment		(49)	(36)	–	–
Net cash outflows from investing activities		(47)	(36)	(462)	(4,897)
Cash flow from financing activities					
Proceeds from issue of shares		7,151	3,817	7,151	3,817
Share issue transaction costs		(178)	(344)	(178)	(344)
Lease repayments		(162)	(75)	–	–
Net cash inflows from financing activities		6,811	3,398	6,973	3,473
Net increase (decrease) in cash and cash equivalents held		2,735	(1,990)	5,374	(2,856)
Cash and cash equivalents at the beginning of the year		7,482	10,073	2,420	5,584
Effects of exchange rate changes on cash and cash equivalents		1,378	(601)	473	(308)
Cash and cash equivalents at the end of the year		11,595	7,482	8,267	2,420

The above cash flow statements should be read in conjunction with the accompanying notes

Notes to the financial statements

30 June 2009

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1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated. The financial report includes separate financial statements for Starpharma Holdings Limited as an individual entity and the consolidated entity consisting of Starpharma Holdings Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

The financial report of Starpharma Holdings Limited complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB); and the Australian equivalent of IFRS (AIFRS).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

For the year ended 30 June 2009, the consolidated entity has incurred losses of \$4,127,000 (2008: \$7,491,000) and experienced net cash outflows of \$4,029,000 from operations (2008: \$5,352,000), as disclosed in the balance sheet and cash flow statement, respectively. This is consistent with the consolidated entity's strategic plans and budget estimates, and the directors are satisfied regarding the availability of working capital (including ongoing royalty revenue and the remaining balance of the contracted NIH grant funding) for the period up to at least September 2010. Accordingly the directors have prepared the financial report on a going concern basis in the belief that the consolidated entity will realise its assets and settle its liabilities and commitments in the normal course of business and for at least the amounts stated in the financial report.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Starpharma Holdings Limited ("company" or "parent entity") as at 30 June 2009 and the results of all subsidiaries for the year then ended. Starpharma Holdings Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(i)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively. Investments in subsidiaries are accounted for at cost in the individual financial statements of Starpharma Holdings Limited.

(c) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Starpharma Holdings Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- > assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- > income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- > all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Licence revenue is recognised in accordance with the underlying agreement. Upfront payments are brought to account as revenues unless there is a correlation to ongoing research and both components are viewed as one agreement, in which case the licence income is amortised over the anticipated period of the associated research program. Unamortised licence revenue is recognised on the balance sheet as deferred income. Interest revenue is recognised on a time proportion basis using the effective interest rate method. All revenue is stated net of the amount of Goods and Services Tax (GST).

(f) Government grants

Government grants include contract income awarded by government bodies for research and development projects. Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity. Starpharma Holdings Limited and its wholly-owned Australian controlled entities have not implemented the tax consolidation legislation.

(h) Leases

Leases of plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases (note 24). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 24). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease term. Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

1. Summary of significant accounting policies

(i) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(p)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(j) Impairment of assets

Goodwill and intangible assets that have an indefinite life are not subject to amortisation and are tested annually for impairment. Other assets are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units).

(k) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The amount of significant cash and cash equivalents not available for use is disclosed in note 8.

(l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the impairment loss is recognised in the income statement within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

(m) Investments and other financial assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 9) and receivables (note 10) in the balance sheet.

(n) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and

maintenance are charged to the income statement during the financial period in which they are incurred. Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of the residual values, over their estimated useful lives. The expected useful lives are 2 to 10 years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1 (j)). Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(o) Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity between 5 to 6 years, whichever is shorter.

(p) Intangible Assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each company.

(ii) Patents and licences

Costs associated with patents are charged to the income statement in the periods in which they are incurred. Licences and acquired patents with a finite useful life are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of licences and patents over the period of the expected benefit, which varies from 4 to 15 years.

(iii) Research and development

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense when it is incurred. Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially

feasible and adequate resources are available to complete development. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. To date no development costs have been capitalised.

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the reporting date which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(r) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(s) Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events when it is more probable than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item in the same class of obligations may be small. Provisions are measured at the present value of management's best estimate for the expenditure required to settle the present obligation at the balance date. The discount rate used to determine the present value reflects current market assessment at the time, value of money, and the risks specific to liability. The increase of the provision due to the passage of time is recognised as interest expense.

(t) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and

1. Summary of significant accounting policies

periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Superannuation

Group companies make the statutory superannuation guarantee contribution in respect of each employee to their nominated complying superannuation fund. In certain circumstances pursuant to an employee's employment contract the Group companies may also be required to make additional superannuation contributions and/or agree to make salary sacrifice superannuation contributions in addition to the statutory guarantee contribution. The Group's legal or constructive obligation is limited to the above contributions. Contributions to the employees' superannuation plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available.

(iv) Employee benefits on-costs

Employee benefit on-costs, including payroll tax, are recognised and included in other liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

(v) Share-based payments

Share-based compensation benefits are offered to the directors and employees via the Starpharma Holdings Limited Employee Share Option Plan ("SPLAM"). Information relating to these plans is set out in note 30 and section D of the Remuneration report under the Directors' Report. The fair value of options granted under SPLAM is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. The fair value at grant date is determined using a Black-Scholes option model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised in each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

(vi) Bonus payments

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration performance criteria that has been set. The group recognises a provision where contractually obliged or

where there is a past practice that has created a constructive obligation.

(vii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

(u) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

(v) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the period but not distributed at balance date.

(w) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(x) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet. Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(y) Rounding of amounts

The company is of a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(z) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 (effective from 1 January 2009)

AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group will adopt AASB 8 from 1 July 2009.

(ii) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 (effective from 1 January 2009)

The revised AASB 123 has removed the option to expense all borrowing costs and - when adopted - will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group, as the Group already capitalises borrowing costs relating to qualifying assets.

(iii) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101 (effective from 1 January 2009)

The September 2007 revised AASB 101 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group will apply the revised standard from 1 July 2009.

(iv) AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations (effective from 1 January 2009)

AASB 2008-1 clarifies that vesting conditions are service conditions and performance conditions only and that other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply the revised standard from 1 July 2009, but it is not expected to affect the accounting for the Group's share-based payments.

(v) Revised AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 (effective 1 July 2009)

The revised AASB 3 continues to apply the acquisition method to business combinations, but with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs must be expensed. This is different to the Group's current policy which is set out in note 1(i) above. The Group will apply the revised standards prospectively to all business combinations and transactions.

(vi) AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective 1 July 2009)

The amendments to AASB 5 Discontinued Operations and AASB 1 First-Time Adoption of Australian-Equivalents to International Financial Reporting Standards are part of the IASB's annual improvements project published in May 2008. They clarify that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosures should be made for this subsidiary if the definition of a discontinued operation is met. The Group will apply the amendments prospectively to all partial disposals of subsidiaries from 1 July 2009.

(vii) AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 July 2009)

In July 2008, the AASB approved amendments to AASB 1 First-time Adoption of International Financial Reporting Standards and AASB 127 Consolidated and Separate Financial Statements. The Group will apply the revised rules prospectively from 1 July 2009. After that date, all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, but the investments may need to be tested for impairment as a result of the dividend payment. Under the entity's current policy, these dividends are deducted from the cost of the investment. Furthermore, when a new intermediate parent entity is created in internal reorganisations it will measure its investment in subsidiaries at the carrying amounts of the net assets of the subsidiary rather than the subsidiary's fair value.

2. Financial risk management

The Group's activities expose it to a variety of financial risks; including market risk and liquidity. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse

effects on the financial performance of the Group. The chief executive officer, chief financial officer and company secretary, under the guidance of the board, have responsibility for the risk management program.

a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures

to major currencies including the US dollar. On the basis of the nature of these transactions, the Group does not use derivative financial instruments to hedge such exposures, but maintains cash and deposits in both Australian and US dollars. The directors are regularly monitoring the potential impact of movements in foreign exchange exposure.

The exposure to foreign currency risk at the reporting date was as follows:

	Consolidated		Parent	
	2009 US \$'000	2008 US \$'000	2009 US \$'000	2008 US \$'000
50 Cash and cash equivalents	2,876	6,313	729	2,172
Trade and other receivables	923	1,515	–	–
Receivables - intercompany loans	–	–	2,745	2,279
Trade and other payables	810	1,097	–	5
Deferred income	675	1,423	–	–

Group and Parent sensitivity

The Group is mainly exposed to US dollars. The following table details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the US dollar. A sensitivity of 10% represents the possible change in foreign exchange rates based on historic trends. A positive number indicates a favourable movement; that is an increase in profit or reduction in the loss.

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Impact on profit / (loss) on a movement of the US Dollar:				
Australian dollar strengthens (increases) against the US Dollar by 10%	(259)	(501)	226	11
Australian dollar weakens (decreases) against the US Dollar by 10%	317	613	(276)	(13)

(ii) Fair value interest rate risk

The Group and Parent hold interest bearing assets and therefore the income and operating cash flows are exposed to market interest rates.

As at the reporting date, the Group and Parent had the following at call and short term deposits of 30 days.

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Deposits at call	8,856	2,976	8,257	2,407

Group and Parent sensitivity

At 30 June 2009, if interest rates had changed by 50 basis points either higher or lower from the year end rates with all other variables held constant, Group profit for the year would have been \$46,000 higher or lower (2008 – change of 50 bps: \$17,000 higher/lower) due to either higher or lower interest income from cash or cash equivalents. The Parent's profit for the year would have been \$41,000 higher or lower (2008 – change of 50 bps: \$12,000 higher/lower).

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures from royalty and licensing agreements and product sales. Credit risk for cash and deposits with banks and financial institutions is managed by maximising deposits held under Australian and US bank guarantees and insurance schemes. Other than government funded research and development programs, third party receivables consist of royalty and licensing receivables from large, multinational organisations.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. The directors regularly monitor the cash position of the consolidated entity, giving consideration to the level of expenditure and future capital commitments entered into.

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments

traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives and investments in unlisted subsidiaries) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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3. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Amortisation of finite life intangible assets

The Group's management determines the estimated life of the patents underlying the core technology of the business and calculates amortisation accordingly. The estimate is based on the period of expected benefit which currently stands at 4–15 years. This could change as a result of technical innovations or competitor actions in response to severe industry cycles. Management will increase amortisation charges when the useful lives are

less than previously estimated lives. The carrying value of intangible assets at 30 June 2009 is \$15,224,000 (2008: \$14,640,000).

(ii) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. In accordance with the accounting policy stated in notes 1(j) and 1(p), impairment of goodwill is considered based on the fair value less cost to sell of the cash generating units over which the goodwill is allocated. Performing the assessment of fair value less costs to sell requires the use of assumptions. Refer to note 12 for details of these assumptions.

(iii) Income taxes

The Group is subject to income taxes in Australia and the United States of America. There are transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination may be uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made. The Group has recognised deferred tax assets relating to carried forward losses to the extent there are

3. Critical accounting estimates and judgments

sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped.

(b) Critical accounting judgments in applying accounting policies

(i) Fair value of intellectual property in purchase price allocation of subsidiary

The Group engaged a professional firm to undertake a valuation of the fair value of the intellectual property assets recognised on acquisition of the remaining share of the US based associate Dendritic Nanotechnologies Inc ("DNT"). The methodology used was a discounted cash flow analysis based on the future potential revenue

derived from the intellectual property to support the fair value of the asset acquired. To allocate the purchase price of the business combination, management attributed a value of \$14.9 million being the mid point of the experts' valuation range.

ii) Impairment of assets

The Group follows the guidance of AASB 136 on determining when an investment is other-than-temporarily impaired. This determination requires significant judgment. In making these judgments, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of the near-term business outlook for the investee. This includes factors such as industry performance, changes in technology, operating and financing cash flow and recent transactions involving equity instruments.

4. Segment information

Business segment

The consolidated entity operates in one business segment, being the discovery, development and commercialisation of dendrimers for pharmaceutical and other life science and industrial applications.

Geographic segment

The consolidated entity operates in locations from Australia and United States of America ("USA"). Dendritic Nanotechnologies Inc. ("DNT") operates from Michigan, USA and it has been determined that on the basis of monitoring of the USA operations, these operations represent a separate geographical segment.

Secondary reporting format-geographical segments

2009	Australia \$'000	USA \$'000	Inter-segment Eliminations \$'000	Total \$'000
Revenue and other income	8,338	1,909	(432)	9,815
Expenses	(10,905)	(3,681)	442	(14,144)
Loss before income tax	(2,567)	(1,772)	10	(4,329)
Segment net assets	16,804	8,696	(1)	25,499

Secondary reporting format-geographical segments

2008	Australia \$'000	USA \$'000	Inter-segment Eliminations \$'000	Total \$'000
Revenue and other income	8,486	1,696	(261)	9,921
Expenses	(14,261)	(4,067)	261	(18,067)
	(5,775)	(2,371)	–	(8,146)
Share of results of associate				(76)
Loss before income tax				(8,222)
Segment net assets	11,879	8,425	79	20,383

5. Revenue

	Consolidated		Parent	
Revenue and other income	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Royalty, customer & license revenue	2,019	1,408	–	–
Interest revenue	105	297	371	414
Other revenue	–	4	–	–
Total revenue	2,124	1,709	371	414
Australian Government grants	379	108	–	–
USA Government grants	7,312	8,104	–	–
Total other income	7,691	8,212	–	–
Total revenue and other income	9,815	9,921	371	414

With the exception of normal audit requirements, there are no unfulfilled conditions or other contingencies attached to the portions of Government grant and contract incomes recognised above. The Group did not benefit from any other form of government assistance.

6. Expenses

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Loss from ordinary activities before income tax expense includes the following items:				
Depreciation	375	553	–	–
Amortisation	1,652	1,546	452	545
Rental expense on operating leases	461	521	–	–
Defined contribution superannuation expense	517	591	120	127

7. Income tax expense

		Consolidated		Parent Entity	
	Notes	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
(a) Income tax expense/(credit)					
Current Tax		–	–	–	–
Deferred Tax		(202)	(731)	–	–
		(202)	(731)	–	–
Income tax expense is attributable to:					
Profit from continuing operations		(202)	(731)	–	–
Profit from discontinued operations		–	–	–	–
Aggregate income credit		(202)	(731)	–	–
Deferred income tax credit included in income tax expenses comprises:					
(Decrease) in deferred tax liabilities	17	(128)	(731)	–	–
		(128)	(731)	–	–
(b) Numerical reconciliation to income tax prima facie tax payable					
Loss from continuing operations before income tax		(4,329)	(8,223)	(882)	(6,045)
Tax at the Australian tax rate of 30%		(1,299)	(2,467)	(264)	(1,814)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income					
Share-based payments		63	61	20	30
Write down in carrying value of investments		–	23	–	–
Write down in carrying value of loans		–	–	5	1,127
Difference in overseas tax rates		56	44	–	–
Future income tax benefits not brought to account		978	1,608	107	657
Income tax credit		(202)	(731)	–	–
(c) Amounts recognised directly in equity					
Reduction of deferred tax liabilities of \$74,000 (2008: \$267,000) arising due to foreign exchange movements have been recognised within the foreign currency translation reserve in equity.					
(d) Tax losses					
Unused tax losses for which no deferred tax asset has been recognised (as recovery is currently not probable)		51,705	49,740	3,655	5,309
Potential tax benefit		15,511	14,922	1,096	1,593
(e) Unrecognised temporary differences					
Temporary differences for which no deferred tax asset has been recognised as recoverability is not probable		899	934	467	406
Unrecognised deferred tax relating to the temporary differences		270	280	140	122

Potential future income tax benefits attributable to tax losses carried forward have not been brought to account at 30 June 2009 because the directors do not believe that it is appropriate to regard realisation of the future income tax benefit as probable. Similarly, future benefits attributable to net temporary differences have not been brought to account as the directors do not regard the realisation of such benefits as probable. Realisation of the

benefit of tax losses would be subject to the Group satisfying the conditions for deductibility imposed by tax legislation and no subsequent changes in tax legislation adversely affecting the Group. The Group last made an assessment as to the satisfaction of deductibility conditions at 30 June 2006, no such similar assessment has been performed in subsequent years.

8. Current assets – Cash and cash equivalents

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Cash at bank and on hand	2,739	4,506	10	13
Deposits at call	8,856	2,976	8,257	2,407
	11,595	7,482	8,267	2,420

Cash at bank and on hand

The cash is bearing floating interest rates based on current bank rates.

Deposits at call

The deposits are bearing floating interest rates ranging from 0.15% to 4.00% (2008: 1.25% to 7.59%). These deposits are of 30-90 day maturities.

Cash not available

There is \$187,000 of cash not available for use due to restrictions associated with a finance lease which is guaranteed by term deposit (2008: \$260,000).

Interest rate risk

30 June 2009

**Floating
Interest
rate**

Fixed interest maturing

	Notes	\$'000	1 year or less \$'000	1 to 2 years \$'000	2 to 3 years \$'000	3 to 4 years \$'000	4 to 5 years \$'000	More than 5 years \$'000	Non-interest bearing \$'000	Total \$'000	Contractual cash flows
Financial Assets											
Cash and deposits	8	7,627	1,656	–	–	–	–	–	2,312	11,595	N/A
Receivables	9	–	–	–	–	–	–	–	1,581	1,581	1,581
		7,627	1,656	–	–	–	–	–	3,893	13,176	1,581
Weighted average interest rate		2.8%	1.9%	–%	–%	–%	–%	–%	–%		

Financial Liabilities

Payables and provisions	14	–	–	–	–	–	–	–	2,100	2,100	2,100
Borrowings	15/16	–	133	160	–	–	–	–	–	293	293
Deferred income		–	–	–	–	–	–	–	955	955	955
		–	133	160	–	–	–	–	3,055	3,348	3,348
Weighted average interest rate		–%	8.0%	7.8%	–%	–%	–%	–%	–%		

8. Current assets – Cash and cash equivalents

30 June 2008		Floating Interest rate		Fixed interest maturing							Total \$'000	Contractual cash flows
Notes	\$'000	1 year or less \$'000	1 to 2 years \$'000	2 to 3 years \$'000	3 to 4 years \$'000	4 to 5 years \$'000	More than 5 years \$'000	Non-interest bearing \$'000				
Financial Assets												
Cash and deposits	8	395	2,976	–	–	–	–	–	4,111	7,482	N/A	
Receivables	9	–	–	–	–	–	–	–	1,773	1,773	1,773	
		395	2,976	–	–	–	–	–	5,884	9,255	1,773	
Weighted average interest rate		3.5%	2.8%	–%	–%	–%	–%	–%	–%			
Financial Liabilities												
Payables and provisions	14	–	–	–	–	–	–	–	2,076	2,076	2,076	
Borrowings	15/16	–	124	133	160	–	–	–	–	417	417	
Deferred income		–	–	–	–	–	–	–	1,648	1,648	1,048	
		–	124	133	160	–	–	–	3,724	4,141	4,141	
Weighted average interest rate		–%	8.0%	8.0%	7.8%	–%	–%	–%	–%			

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9. Current assets – Trade and other receivables

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Trade and grant receivable	1,344	1,311	117	75
Interest receivable	35	2	31	–
Prepayments	100	370	42	48
Other receivables	102	90	99	74
	1,581	1,773	289	197

Trade and grant receivables

Trade receivables primarily comprise of customer royalty and licence revenue and are subject to normal terms of settlement within 30 to 90 days. Grant receivables comprise of expenditure reimbursable under grants from the USA government, including the National Institutes of Health ("NIH") and Department of Defense which are subject to normal terms of settlement within 30 to 60 days.

Impaired receivables

As at 30 June 2009, trade and grant receivables of \$234,000 (2008: nil) were past due. These relate to grant funding and customers for whom there is no recent history of default. No receivables are considered impaired at 30 June 2009 (2008: nil) other than from subsidiaries within the Group.

Other receivables

Other receivables comprise sundry debtors and GST claimable and are subject to normal terms of settlement within 30 days.

10. Non-current assets – Receivables

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Loans to controlled entities	–	–	38,413	37,639
Impairment provision	–	–	(35,024)	(35,008)
	–	–	3,389	2,631

Interest rate risk

With the exception of loans to controlled entities, current and non-current receivables are non-interest bearing. Information concerning the effective interest rate is detailed in note 8.

Credit risk

The Group considers that there is no significant concentration of credit risk with respect to current and non-current receivables. Grant receivables are with government bodies and royalty receivables are from large, well respected companies. Loans to controlled entities are assessed for recoverability and provisions are applied as considered appropriate.

11. Non-current assets – Property, plant and equipment

Consolidated	Plant and equipment \$'000	Leasehold improvements \$'000	Plant and equipment under finance lease \$'000	Total plant and equipment \$'000
At 30 June 2007				
Cost	2,251	1,141	757	4,149
Accumulated depreciation and amortisation	(1,631)	(946)	(461)	(3,038)
Net book amount	620	195	296	1,111
Year ended 30 June 2008				
Opening net book amount	620	195	296	1,111
Exchange differences	(9)	–	–	(9)
Additions	36	–	176	212
Disposals	(3)	–	–	(3)
Depreciation and amortisation	(256)	(178)	(119)	(553)
Closing net book amount	388	17	353	758
At 30 June 2008				
Cost	2,270	1,141	614	4,025
Accumulated depreciation and amortisation	(1,882)	(1,124)	(261)	(3,267)
Net book amount	388	17	353	758
Year ended 30 June 2009				
Opening net book amount	388	17	353	758
Exchange differences	25	–	–	25
Additions	49	–	–	49
Disposals	(10)	–	–	(10)
Depreciation and amortisation	(227)	(9)	(139)	(375)
Closing net book amount	225	8	214	447
At 30 June 2009				
Cost	2,337	1,141	294	3,772
Accumulated depreciation and amortisation	(2,112)	(1,133)	(80)	(3,325)
Net book amount	225	8	214	447

12. Non-current assets – Intangible assets

Consolidated	Patents & licences \$'000	Goodwill \$'000	Total intangibles \$'000
At 30 June 2007			
Cost	17,634	1,755	19,389
Accumulated depreciation and amortisation	(1,603)	–	(1,603)
Net book amount	16,031	1,755	17,786
Year ended 30 June 2008			
Opening net book amount	16,031	1,755	17,786
Exchange differences	(1,392)	(208)	(1,600)
Depreciation and amortisation	(1,546)	–	(1,546)
Closing net book amount	13,093	1,547	14,640
At 30 June 2008			
Cost	16,065	1,547	17,612
Accumulated depreciation and amortisation	(2,972)	–	(2,972)
Net book amount	13,093	1,547	14,640
Year ended 30 June 2009			
Opening net book amount	13,093	1,547	14,640
Exchange differences	1,948	288	2,236
Depreciation and amortisation	(1,652)	–	(1,652)
Closing net book amount	13,389	1,835	15,224
At 30 June 2009			
Cost	18,244	1,835	20,079
Accumulated depreciation and amortisation	(4,855)	–	(4,855)
Net book amount	13,389	1,835	15,224

(a) Impairment tests for goodwill

Goodwill is tested annually for impairment based on the fair value less costs to sell of the cash generating units over which the goodwill is allocated.

The Group has operations in both Australia and the United States – these geographical segments are also determined to be the Cash Generating Units (CGUs) of the Starpharma Group. The directors have determined that the goodwill (which arose on the acquisition of the remaining share of the DNT business) should be allocated across these CGUs as the business combination gives rise to synergies within both Starpharma's Australian operations and the DNT business in the United States.

The recoverable amounts of the Group's CGUs have been determined based on estimation of their fair value less costs to sell.

(b) Key assumptions used for fair value less costs to sell estimation

The market capitalisation of the Starpharma Group is used to determine an approximation of the fair value less costs to sell of the two CGUs which make up the Group. Given the excess of the market capitalisation of Starpharma Holdings Limited over the carrying value of total assets (including goodwill) at 30 June 2009, goodwill is not considered to be impaired at year end.

(c) Impairment tests for finite life intangible assets

Identifiable intangible assets with finite lives are carried at cost less accumulated amortisation and adjusted for any accumulated impairment loss. The directors have assessed these assets for indicators of impairment at 30 June 2009 and determined that there is no indication that the asset is impaired.

Parent	Patents & licences \$'000	Goodwill \$'000	Total intangibles \$'000
At 30 June 2007			
Cost	4,374	–	4,374
Accumulated depreciation and amortisation	(685)	–	(685)
Net book amount	3,689	–	3,689
Year ended 30 June 2008			
Opening net book amount	3,689	–	3,689
Depreciation and amortisation	(545)	–	(545)
Closing net book amount	3,144	–	3,144
At 30 June 2008			
Cost	4,374	–	4,374
Accumulated depreciation and amortisation	(1,230)	–	(1,230)
Net book amount	3,144	–	3,144
Year ended 30 June 2009			
Opening net book amount	3,144	–	3,144
Depreciation and amortisation	(452)	–	(452)
Closing net book amount	2,692	–	2,692
At 30 June 2009			
Cost	4,374	–	4,374
Accumulated depreciation and amortisation	(1,682)	–	(1,682)
Net book amount	2,692	–	2,692

13. Non-current assets – Other financial assets

		Consolidated		Parent Entity	
	Notes	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Other non-traded investments					
Shares in controlled entities	25	–	–	33,752	33,752
Provision for impairment in value		–	–	(17,500)	(17,500)
		–	–	16,252	16,252

(a) Impairment tests for investments in subsidiaries

The Company's investments in subsidiaries are held at cost less accumulated impairment losses. At 30 June 2009 the directors assessed these investments for indicators of impairment and determined that there are no indications that the assets are further impaired.

14. Current liabilities – Trade and other payables

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Trade creditors and accrued payables	1,764	1,623	912	823
Loans from controlled entities	–	–	654	654
	1,764	1,623	1,566	1,477

15. Current liabilities – Borrowings

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Finance lease liability (secured)	133	124	–	–

Details of the security relating to each of the secured liabilities are set out in note 16.

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16. Non-current liabilities – Borrowings

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Finance lease liability (secured)	160	293	–	–

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default. The carrying value of leased assets is \$293,000 at 30 June 2009 (2008: \$417,000).

2009		Floating Interest rate		Fixed interest rate					Total \$'000
	Notes		1 year or less \$'000	Over 1–2 years \$'000	Over 2–3 years \$'000	Over 3–4 years \$'000	Over 4–5 years \$'000	Over 5 years \$'000	
Lease Liabilities	15/16/24	–	133	160	–	–	–	–	293
Weighted average interest rate		–	8.0%	7.8%	–	–	–	–	

2008		Floating Interest rate		Fixed interest rate					Total \$'000
	Notes		1 year or less \$'000	Over 1–2 years \$'000	Over 2–3 years \$'000	Over 3–4 years \$'000	Over 4–5 years \$'000	Over 5 years \$'000	
Lease Liabilities	15/16/24	–	124	133	160	–	–	–	417
Weighted average interest rate		–	8.0%	8.0%	7.8%	–	–	–	

17. Non-current liabilities – Deferred tax liabilities

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Balance at 1 July	128	954	–	–
Reduction in deferred tax liability arising from				
Amortisation of intangible asset	(202)	(241)	–	–
Impacts of foreign exchange	74	(95)	–	–
Offset of deferred tax asset arising from post acquisition tax losses	–	(490)	–	–
Net deferred tax liability	–	128	–	–

18. Contributed equity

(a) Share Capital

	Parent Entity		Parent Entity	
	2009 Shares	2008 Shares	2009 \$'000	2008 \$'000
Share Capital				
Ordinary shares – fully paid	207,218,113	179,715,153	85,640	78,667

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(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue Price	\$'000
1 Jul 2007	Opening Balance	167,833,986		76,227
22 Aug 2007	Share placement	11,881,167	\$0.32 ¹	2,784
	less transaction costs			(344)
	Balance at 30 June 2008	179,715,153		78,667
8 Apr 2009	Share placement (Tranche I)	11,853,844	\$0.26	3,082
22 May 2009	Share placement (Tranche II)	8,000,000	\$0.26	2,080
22 May 2009	Share purchase plan	7,649,116	\$0.26	1,989
	less transaction costs			(178)
	Balance at 30 June 2009	207,218,113		85,640

¹ Shares with unlisted options attached were issued at a price of \$0.32. The fair value of the options of \$1,033,000 has been recognised in the share-based payments reserve.

(c) Ordinary shares

As at 30 June 2009 there were 207,218,113 issued ordinary shares. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. There is no current on-market share buy-back

(d) Options

Information relating to the Starpharma Holdings Limited Employee Share Option Plan and Individual option deeds, including details of options issued, exercised and expired during the financial year and options outstanding at the end of the financial year are set out in note 30.

18. Contributed equity

(e) Share purchase plan

On 22 April 2009 the company invited eligible shareholders to subscribe for ordinary shares at an issue price of \$0.26 per share, up to a maximum of \$10,000 per shareholder. A total of 7,649,116 of shares were issued on 22 May 2009 from the share purchase plan.

(f) Capital risk management

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders.

19. Reserves

(a) Reserves

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Share-based payments reserve	2,148	1,939	1,903	1,838
Foreign currency translation reserve	(1,084)	(3,145)	–	–
Asset revaluation reserve	2,215	2,215	–	–
	3,279	1,009	1,903	1,838

(b) Movement in reserves

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Share-based payments reserve				
Balance at 1 July	1,939	697	1,838	697
Fair value of options granted on share placement	–	1,033	–	1,033
Option expense	209	209	65	108
Balance at 30 June	2,148	1,939	1,903	1,838
Foreign currency translation reserve				
Balance at 1 July	(3,145)	(1,613)	–	–
Currency translation differences arising during the year	2,061	(1,532)	–	–
Balance at 30 June	(1,084)	(3,145)	–	–

(c) Nature and purpose of reserves**(i) Share-based payments reserve**

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

(ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign associate/subsidiary are taken to the foreign currency translation reserve, as described in Note 1(d). The reserve is recognised in income statement when the net investment is disposed of.

(iii) Asset revaluation reserve

The uplift in fair value of the identifiable net assets of DNT on the company's acquisition of the remaining share in October 2006 was recognised in reserves.

20. Accumulated losses

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Accumulated losses balance at 1 July	(59,293)	(51,802)	(57,338)	(51,293)
Net loss for the year	(4,127)	(7,491)	(882)	(6,045)
Accumulated losses balance at 30 June	(63,420)	(59,293)	(58,220)	(57,338)

21. Key management personnel disclosures

(a) Key management personnel compensation

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Short term employee benefits	1,273	1,511	416	604
Post employment benefits	350	347	170	180
Other long term benefits	8	11	–	–
Termination benefits	117	–	–	–
Share-based payments	104	147	32	23
	1,852	2,016	618	807

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Detailed remuneration disclosures are provided in sections A-C of the remuneration report on pages 21 to 27.

(b) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report on pages 27 to 28.

Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of Starpharma Holdings Limited and other key management personnel of the Group, including their personally related parties, are set out below. With the exception of J K Fairley, no director held options in the current or prior year.

2009

Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year [#]	Balance at the end of the year	Vested and exercisable at the end of the year	Unvested
Directors of Starpharma Holdings Limited							
J K Fairley	1,150,000	–	–	(500,000)	650,000	450,000	200,000
Other key management personnel of the Group							
B P Rogers	420,000	200,000	–	(220,000)	400,000	200,000	200,000
J R Paull	280,000	275,000	–	(80,000)	475,000	200,000	275,000
C P Barrett	300,000	275,000	–	–	575,000	300,000	275,000
N J Baade	200,000	225,000	–	–	425,000	200,000	225,000
D J Owen	200,000	225,000	–	–	425,000	200,000	225,000
R I Berry ¹	250,000	–	–	–	250,000	250,000	–

[#] Other Changes during the year relate to the expiry of options.

¹ At 30 June 2009 R I Berry was not an executive of the Group.

21. Key management personnel disclosures

2008

Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year [#]	Balance at the end of the year	Vested and exercisable at the end of the year	Unvested
Directors of Starpharma Holdings Limited							
J K Fairley	800,000	350,000	–	–	1,150,000	800,000	350,000
Other key management personnel of the Group							
B P Rogers	420,000	–	–	–	420,000	220,000	200,000
J R Paull	280,000	–	–	–	280,000	80,000	200,000
C P Barrett	300,000	–	–	–	300,000	100,000	200,000
N J Baade	200,000	–	–	–	200,000	–	200,000
D J Owen	200,000	–	–	–	200,000	–	200,000
R I Berry	250,000	–	–	–	250,000	–	250,000

Share holdings

The numbers of ordinary shares in the company held during the financial year by each director of Starpharma Holdings Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation

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2009

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Starpharma Holdings Limited				
Ordinary Shares				
P T Bartels	129,804	–	–	129,804
J K Fairley	53,750	–	–	53,750
J W Raff	6,496,874	–	783,903	7,280,777
R Dobinson	–	–	–	–
P J Jenkins	1,416,000	–	–	1,416,000
R A Hazleton	42,616	–	100,000	142,616
Other key management personnel of the Group				
Ordinary Shares				
B P Rogers	65,622	–	–	65,622
J R Paull	–	–	–	–
C P Barrett	–	–	–	–
N J Baade	–	–	–	–
D J Owen	–	–	–	–
R I Berry ¹	70,296	–	–	70,296

¹ At 30 June 2009 R I Berry was not an executive of the Group.

2008

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
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Directors of Starpharma Holdings Limited*Ordinary Shares*

P T Bartels	109,804	–	20,000	129,804
J K Fairley	30,250	–	23,500	53,750
J W Raff	5,706,689	–	790,185	6,496,874
R Dobinson	2,720,976	–	(2,720,976)	–
P J Jenkins	1,635,608	–	(219,608)	1,416,000
R A Hazleton	42,616	–	–	42,616
P M Colman ¹	5,992,286	–	–	5,992,286
L Gorr ¹	5,204,704	–	–	5,204,704

Other key management personnel of the Group*Ordinary Shares*

B P Rogers	65,622	–	–	65,622
J R Paull	–	–	–	–
C P Barrett	–	–	–	–
N J Baade	–	–	–	–
D J Owen	–	–	–	–
R I Berry	70,296	–	–	70,296

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¹ At 30 June 2008 these individuals were not Directors of Starpharma Holdings Limited.

No director has entered into a material contract with the Group in either the current or previous financial year and there were no material contracts involving directors' interests subsisting at year end.

22. Remuneration of auditors

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the consolidated entity are important. Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below. During the year the following fees were paid or payable for services provided by the auditor (PricewaterhouseCoopers) of the parent entity, its related practices and non-related audit firms:

	Consolidated		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
(a) Statutory audit services				
Audit or review of financial reports of the entity or any entity in the consolidated entity				
PricewaterhouseCoopers	129,000	102,684	129,000	102,684
Other auditors of controlled entities	27,137	68,186	–	–
Total remuneration for statutory audit services	156,137	170,870	129,000	102,684
(b) Other audit services				
Other audit services:				
Grant reviews & program audits				
PricewaterhouseCoopers	22,500	22,500	–	–
Total remuneration for other audit services	22,500	22,500	–	–
Total remuneration of auditors	178,637	193,370	129,000	102,684

23. Contingencies

The Company has no contingent assets or liabilities at 30 June 2009 (2008: nil).

24. Commitments

(a) Capital Commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Property, plant and equipment				
Within one year	–	19	–	–
Later than one year but not later than five years	–	–	–	–
Later than five years	–	–	–	–
	–	19	–	–

(b) Lease Commitments

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	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
Not later than one year	402	185	–	–
Later than one year and not later than five years	228	329	–	–
Later than five years	–	–	–	–
	630	514	–	–
Representing:				
Cancellable operating leases	337	97	–	–
Non-cancellable finance lease	315	466	–	–
Future finance charges on finance leases	(22)	(49)	–	–
	630	514	–	–

Operating leases

The Group leases laboratory and offices under a lease until 31 August 2010 and leases various plant and equipment under cancellable operating leases.

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Commitments for minimum lease payments in relation to cancellable operating leases are payable as follows:				
Not later than one year	269	61	–	–
Later than one year and not later than five years	68	36	–	–
Later than five years	–	–	–	–
Representing cancellable operating leases	337	97	–	–

Finance leases

The Group leases plant and equipment with a carrying amount of \$293,000 (2008: \$417,000) under a finance lease expiring within two years.

two years.

		Consolidated		Parent Entity	
	Notes	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Commitments in relation to finance leases are payable as follows:					
Not later than one year		151	151	–	–
Later than one year and not later than five years		164	315	–	–
Later than five years		–	–	–	–
Minimum lease payments		315	466	–	–
Future finance charges					
		(22)	(49)	–	–
Recognised as a liability		293	417	–	–
Representing finance lease liabilities:					
Current	15	133	124	–	–
Non-current	16	160	293	–	–
		293	417	–	–

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The weighted average interest rate implicit in the lease is 7.9% (2008: 7.9%).

(c) Expenditure commitments

The Group has entered into various agreements for the research and development services. All material committed expenditure is reimbursable under existing grant funding sources.

(d) Termination commitments

The service contracts of key management personnel include benefits payable by the Group on termination of the employee's contract. Refer to section C of the remuneration report for details of these commitments.

25. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b).

Name of entity	Country of Incorporation	Class of Shares	Equity Holding		Cost of Parent Entity's Holding Investment	
			2009 %	2008 %	2009 \$'000	2008 \$'000
Starpharma Pty Limited	Australia	Ordinary	100.00%	100.00%	9,900	9,900
Angiostar Pty Limited	Australia	Ordinary	100.00%	100.00%	3,300	3,300
Viralstar Pty Limited	Australia	Ordinary	100.00%	100.00%	4,300	4,300
Preclin Pty Limited ¹	Australia	Ordinary	–	100.00%	–	–
Dendritic Nanotechnologies Inc.	USA	Ordinary	100.00%	100.00%	16,252	16,252
					33,752	33,752

¹ Preclin Pty Limited was de-registered in on 7 June 2009.

26. Events occurring after the balance sheet date

On 3 August 2009, Starpharma announced results of the clinical study designed to assess retention of antiviral activity following vaginal administration of VivaGel® in women. The study showed that cervicovaginal fluid samples (CVS) obtained immediately after vaginal administration of VivaGel® provided effectively complete inhibition of HIV and HSV infection *in vitro*. At 1 and 3 hours following administration of product, the initial high level of inhibition of HIV and HSV was retained in all women tested. Even at 12 and 24 hours following administration, more than 90% of the initial antiviral activity was retained for both HIV and HSV in more than half of the women tested. This is the first clinical study to demonstrate potent antiviral activity of any microbicide beyond one hour after administration of the product in humans.

These data indicate the potential for VivaGel® to be used other than immediately prior to sexual intercourse. However, future testing in clinical efficacy studies is required to confirm this. There were no serious adverse events during the study, and the data indicate VivaGel® was safe and well-tolerated in the study.

There are no other significant events occurring since 30 June 2009 that have significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of the Group.

27. Reconciliation of profit after income tax to net cash inflow from operating activities

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	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Operating loss after tax:	(4,127)	(7,491)	(882)	(6,045)
Depreciation and amortisation	2,028	2,099	452	545
Foreign exchange (gains) / losses	(1,378)	601	(473)	308
Non-cash employee benefits -share-based payments	209	209	65	108
Impairment of financial asset	–	76	–	40
Provision for doubtful debts	–	–	16	3,758
Change in operating assets and liabilities, net of effects of acquisitions and disposals of entities:				
(Increase) decrease in receivables and other assets	39	(370)	(404)	(253)
Decrease in deferred tax assets	–	43	–	–
Increase (decrease) increase in trade creditors	142	(232)	89	107
Decrease in deferred tax liabilities	(128)	(826)	–	–
Increase (decrease) in employee provisions	(118)	40	–	–
Increase (decrease) in deferred income	(693)	499	–	–
Gain on sale of property, plant and equipment	(3)	–	–	–
Net cash outflows from operating activities	(4,029)	(5,352)	(1,137)	(1,432)

28. Non-cash financing activities

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Acquisition of property, plant and equipment by means of equipment loan	–	176	–	–
	–	176	–	–

29. Earnings per share

	Consolidated	
	2009	2008
	\$	\$
Basic loss per share	(0.02)	(0.04)
Diluted loss per share	(0.02)	(0.04)
Net loss attributable to members of Starpharma Holdings Ltd used as the numerator in calculating diluted and basic earnings per share (\$'000)	(4,127)	(7,491)
Weighted average number of ordinary shares outstanding during the year used as the denominator in calculating diluted and basic earnings per share	184,082,782	177,994,656

30. Share-based payments

(a) Employee option plan

The establishment of the Starpharma Holdings Limited Employee Share Option Plan was approved by shareholders at the Annual General Meeting held on 17 November 2004 and re-approved on 14 November 2007. All full-time or part-time employees and directors of the company or associated companies are eligible to participate in the Plan. The objective of the Plan is to assist in the recruitment, reward, retention and motivation of employees of the company. Options are granted under the plan for no consideration. The vesting period is 1 to 2 years from date of grant, with the exercise period 2 to 3 years from the end of the vesting period. Options granted under the plan carry no dividend or voting rights. Each option is personal to the participant and is not transferable, transmissible, assignable or chargeable, except with the written consent of the remuneration and nomination committee.

(b) Individual option deeds

The company infrequently issues options to key consultants of the company. The objective of the option issues is to assist in the reward, retention and motivation of consultants of the company. Options are granted for no consideration, usually in lieu of some proportion of cash compensation. Options are normally granted for a two to five year period, with various exercisable dates. Options granted carry no dividend or voting rights. Each option is personal to the participant and is not transferable, transmissible, assignable or chargeable, except with the written consent of the remuneration and nomination committee.

(c) Options attached to a share placement

The company issued 7,567,119 unlisted options attached to a share placement in the prior year. The options have an exercise price of \$0.4346 per option with an expiry date of 21 August 2012. Options granted carry no dividend or voting rights. The options are not transferable, transmissible, assignable or chargeable, except with written consent.

30. Share-based payments

Set out below are summaries of options granted under the schemes:

2009								
Grant Date	Expiry Date	Exercise Price \$	Balance at start of the year Number	Granted during the year Number	Forfeited during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
Consolidated and parent entity								
6 Feb 2004 ^a	31 Dec 2008	\$0.73	200,000	–	–	200,000	–	–
8 Feb 2004 ^a	8 Feb 2009	\$0.94	368,000	–	10,000	358,000	–	–
31 Dec 2004 ^a	31 Dec 2009	\$0.94	101,000	–	15,000	–	86,000	86,000
4 Jul 2005 ^a	4 Jul 2010	\$0.94	300,000	–	–	–	300,000	300,000
18 Jul 2005 ^a	18 Jul 2010	\$0.94	100,000	–	–	–	100,000	100,000
6 Oct 2006 ^a	6 Oct 2010	\$0.50	1,088,000	–	50,000	–	1,038,000	1,038,000
17 Nov 2006 ^a	30 Jun 2009	\$0.45	500,000	–	–	500,000	–	–
2 Jan 2007 ^b	2 Jan 2009	\$0.52	65,000	–	–	45,000	20,000	20,000
4 Apr 2007 ^a	4 Apr 2011	\$0.50	590,000	–	–	–	590,000	590,000
21 Aug 2007 ^c	22 Aug 2012	\$0.43	7,567,119	–	–	–	7,567,119	7,567,119
12 Oct 2007 ^b	31 May 2009	\$0.43	10,000	–	–	10,000	–	–
12 Oct 2007 ^b	30 Jun 2009	\$0.43	10,000	–	–	10,000	–	–
12 Oct 2007 ^b	31 Jul 2009	\$0.43	10,000	–	–	–	10,000	10,000
12 Oct 2007 ^b	31 Aug 2009	\$0.43	10,000	–	–	–	10,000	10,000
31 Oct 2007 ^a	7 Aug 2011	\$0.50	690,000	–	140,000	–	550,000	290,000
14 Nov 2007 ^a	4 Apr 2011	\$0.50	150,000	–	–	–	150,000	150,000
14 Nov 2007 ^a	8 Aug 2011	\$0.50	200,000	–	–	–	200,000	–
1 Jan 2009 ^a	28 Aug 2012	\$0.29	–	1,628,000	50,000	–	1,578,000	–
1 Jan 2009 ^b	28 Aug 2012	\$0.29	–	20,000	–	–	20,000	–
29 Jun 2009 ^a	28 Jun 2014	\$0.37	–	1,464,000	–	–	1,464,000	–
Total			11,959,119	3,112,000	265,000	1,123,000	13,683,119	10,161,119
Weighted average exercise price			\$0.49	\$0.33	\$0.50	\$0.65	\$0.44	\$0.47

^a Options granted under the Employee Option Plan.

^b Options granted under individual option deeds.

^c Options granted under a share placement.

2008		Exercise Price	Balance at start of the year	Granted during the year	Forfeited during the year	Expired during the year	Balance at end of the year	Exercisable at end of the year
Grant Date	Expiry Date	\$	Number	Number	Number	Number	Number	Number
Consolidated and parent entity								
6 Feb 2004 ^a	31 Dec 2008	\$0.73	200,000	–	–	–	200,000	200,000
8 Feb 2004 ^a	8 Feb 2009	\$0.94	410,000	–	42,000	–	368,000	368,000
31 Dec 2004 ^a	31 Dec 2009	\$0.94	147,000	–	46,000	–	101,000	101,000
4 Jul 2005 ^a	4 Jul 2010	\$0.94	300,000	–	–	–	300,000	–
18 Jul 2005 ^a	18 Jul 2010	\$0.94	100,000	–	–	–	100,000	100,000
6 Oct 2006 ^a	6 Oct 2010	\$0.50	1,194,000	–	106,000	–	1,088,000	–
17 Nov 2006 ^a	30 Jun 2009	\$0.45	500,000	–	–	–	500,000	500,000
2 Jan 2007 ^b	2 Jan 2009	\$0.52	65,000	–	–	–	65,000	45,000
4 Apr 2007 ^a	4 Apr 2011	\$0.50	590,000	–	–	–	590,000	–
21 Aug 2007 ^c	22 Aug 2012	\$0.43	–	7,567,119	–	–	7,567,119	7,567,119
12 Oct 2007 ^b	31 May 2009	\$0.43	–	10,000	–	–	10,000	10,000
12 Oct 2007 ^b	30 Jun 2009	\$0.43	–	10,000	–	–	10,000	10,000
12 Oct 2007 ^b	31 Jul 2009	\$0.43	–	10,000	–	–	10,000	10,000
12 Oct 2007 ^b	31 Aug 2009	\$0.43	–	10,000	–	–	10,000	10,000
31 Oct 2007 ^a	7 Aug 2011	\$0.50	–	690,000	–	–	690,000	–
14 Nov 2007 ^a	4 Apr 2011	\$0.50	–	150,000	–	–	150,000	–
14 Nov 2007 ^a	8 Aug 2011	\$0.50	–	200,000	–	–	200,000	–
Total			3,506,000	8,647,119	194,000	–	11,959,119	8,921,119
Weighted average exercise price			\$0.92	\$0.44	\$0.70	\$ –	\$0.49	\$0.49

^a Options granted under the Employee Option Plan.

^b Options granted under individual option deeds.

^c Options granted under a share placement.

No options were exercised during the current or prior year. The weighted average remaining contractual life of share options outstanding at the end of the period was 3.00 years (2008: 3.39 years).

Fair value of options granted

The weighted average assessed fair value at grant date of options granted during the year ended 30 June 2009 was \$0.17 per option (2008: \$0.14). The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option. The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information. Options are granted for no consideration, and have varying exercise and expiry dates.

Information used in assessing the fair value of options granted during the year ended 30 June 2009 is as follows:

Option grant date	1 Jan 2009	29 Jun 2009
Number of options granted	1,648,000	1,464,000
Expiry date	28 Aug 2012	28 Jun 2014
Exercise price	\$0.29	\$0.37
Expected price volatility of the company's shares	88.2%	92.4%
Risk-free interest rate	5.7%	5.7%
Expected dividend yield	–	–
Share price at grant date	\$0.20	\$0.33
Assessed fair value	\$0.11	\$0.23

Information used in assessing the fair value of options granted during the year ended 30 June 2008 is as follows:

Option grant date	21 Aug 2007	12 Oct 2007	12 Oct 2007	12 Oct 2007
Number of options granted	7,567,119	10,000	10,000	10,000
Expiry date	21 Aug 2012	31 May 2009	30 Jun 2009	31 Jul 2009
Exercise price	\$0.43	\$0.43	\$0.43	\$0.43
Expected price volatility of the company's shares	46.9%	54.6%	54.6%	54.6%
Risk-free interest rate	5.9%	6.3%	6.3%	6.3%
Expected dividend yield	–	–	–	–
Share price at grant date	\$0.34	\$0.36	\$0.36	\$0.36
Assessed fair value	\$0.14	\$0.09	\$0.09	\$0.09

Option grant date	12 Oct 2007	31 Oct 2007	14 Nov 2007	14 Nov 2007
Number of options granted	10,000	690,000	150,000	200,000
Expiry date	31 Aug 2009	07 Aug 2011	04 Apr 2011	07 Aug 2011
Exercise price	\$0.43	\$0.50	\$0.50	\$0.50
Expected price volatility of the company's shares	54.6%	59.2%	59.8%	59.8%
Risk-free interest rate	6.3%	6.3%	6.3%	6.3%
Expected dividend yield	–	–	–	–
Share price at grant date	\$0.36	\$0.41	\$0.39	\$0.39
Assessed fair value	\$0.10	\$0.18	\$0.16	\$0.17

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(d) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period were as follows:

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Options issued under employee option plan	207	203	65	99
Options issued under deed	2	6	–	9
	209	209	65	108

31. Related Party Transactions

(a) Parent entity and subsidiaries

The parent entity of the Group is Starpharma Holdings Limited. Interests in subsidiaries are set out in note 25.

(b) Key management personnel

Disclosures relating to key management personnel are set out in note 21.

(c) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Other Transactions				
Funds advanced to subsidiary	–	–	462	4,897
Funds advanced from subsidiary	–	–	–	–
Share-based payments	–	–	–	101
Management services from subsidiary	–	–	(723)	(654)
Management services to subsidiaries	–	–	121	78
Interest charged on loan to subsidiary	–	–	312	190
Impairment of loans to related entities	–	–	(16)	(3,758)

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All transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of outstanding balances.

(d) Outstanding balances arising from sales/purchases of goods and services

	Consolidated		Parent Entity	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Receivables				
Interest on loan to subsidiary	–	–	549	238
Loan to subsidiary	–	–	2,840	2,393
Management services to subsidiaries	–	–	117	75
Payables				
Management services from subsidiary	–	–	795	719

Outstanding balances are payable in cash.

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 38 to 73 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with *Accounting Standards*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (c) the remuneration disclosures set out on pages 21 to 30 of the directors' report comply with *Accounting Standards AASB 124 Related Party Disclosures* and the *Corporations Regulations 2001*.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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

A handwritten signature in black ink, appearing to read 'Peter T Bartels', written in a cursive style.

Peter T Bartels, AO
Director

Melbourne, 24 August 2009

Independent auditor's report to the members of Starpharma Holdings Limited

Report on the financial report

We have audited the accompanying financial report of Starpharma Holdings Limited (the company), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Starpharma Holdings Limited and the Starpharma Holdings Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

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Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

**Independent auditor's report to the members of
Starpharma Holdings Limited (continued)**

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Starpharma Holdings Limited is in accordance with the *Corporations Act 2001*, including:
- (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*, and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in sections A to E of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Starpharma Holdings Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.



PricewaterhouseCoopers



Nadia Carlin
Partner

Melbourne
24 August 2009

Shareholder Information

The shareholder information set out below was applicable as at 8 September 2009

Supplementary information as required by ASX listing requirements.

A. Distribution of equity shareholders

Analysis of numbers of equity security holders by size of holding as at 8 September 2009

	Class of equity security Ordinary shares	
	Shares	Options
1–1,000	137	–
1,001–5,000	650	–
5,001–10,000	417	–
10,001–100,000	793	27
100,000 and over	176	17
	2,176	44

There were 144 holders of less than a marketable parcel of ordinary shares.

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B. Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

	Ordinary shares	
Name	Number held	Percentage of issued shares
1. NATIONAL NOMINEES LIMITED	28,045,288	13.53
2. ANZ NOMINEES LIMITED <CASH INCOME A/C>	25,682,674	12.39
3. THE DOW CHEMICAL COMPANY	14,406,827	6.95
4. COGENT NOMINEES PTY LIMITED <SMP ACCOUNTS>	7,123,113	3.44
5. PETER MALCOLM COLMAN	5,522,286	2.66
6. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	4,402,146	2.12
7. J P MORGAN NOMINEES AUSTRALIA LIMITED	3,911,196	1.89
8. KENNETH NOMINEES PTY LTD <RAYSE SUPER FUND A/C>	3,800,000	1.83
9. T & N ARGYRIDES INVESTMENTS P/L <SUPER FUND A/C>	3,714,694	1.79
10. JPS DISTRIBUTION PTY LTD <RAFF S/F A/C>	3,567,831	1.72
11. IRREWARRA INVESTMENTS PTY LTD <ST A/C>	3,120,000	1.51
12. GILRIDGE PTY LTD	3,073,516	1.48
13. APPLECROSS SECRETARIAL SERVICES PTY LTD <GORR PENSION PLAN A/C>	3,042,462	1.47
14. BIOTECH CAPITAL LTD	3,000,000	1.45
15. STRATEGIC INDUSTRY RESEARCH FOUNDATION LIMITED	2,597,302	1.25
16. COMMONWEALTH SCIENTIFIC AND INDUSTRIAL RESEARCH ORGANISATION	2,448,798	1.18
17. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,384,355	1.15
18. UBS NOMINEES PTY LTD	2,337,761	1.13
19. COGENT NOMINEES PTY LIMITED	2,277,576	1.10
20. CITICORP NOMINEES PTY LIMITED	2,001,278	0.97
	126,459,103	61.03

Unquoted equity securities	Number on issue	Number of holders
Options issued under the Starpharma Holdings Limited Employee Share Option Plan (ASX code SPLAM)	5,756,000	39
Options issued under individual option deeds	7,607,119	5
Total	13,363,119	44

Shareholder Information

C. Substantial holders

Substantial shareholders as shown in substantial shareholder notices received by the Company as at 8 September 2009:

	Number held
Ordinary shares	
Acorn Capital Limited	29,920,807
The Dow Chemical Company	14,406,827
Starpharma Holdings Limited has the power to control disposal of 7,203,413 of these shares pursuant to a voluntary escrow deed with The Dow Chemical Company.	
(refer also Item E below)	
Platinum-Montaur Life Sciences LLC	9,046,365

D. Voting rights

The voting rights attached to each class of equity securities are set out below:

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(a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and on a poll each share shall have one vote.

(b) Options

No voting rights.

E. Securities subject to voluntary escrow

The following ordinary shares are subject to voluntary escrow until the dates indicated:

Number of shares	Number of holders	Release date
7,203,413	1	18 October 2009

Intellectual Property Report

Starpharma's Patent Portfolio

The Starpharma patent portfolio currently has around 33 active patent families with over 70 granted patents and 100 patent applications pending. One new provisional patent application was filed during the year.

Current as at 22 September 2009.

Key patents within the Starpharma portfolio comprise:

Title	Priority Date & International Publication Number	Patents Granted	Applications Pending
VivaGel® Patent Portfolio			
Antiviral Dendrimers	15 June 1994 WO95/34595	Australia, Brazil, Canada, China, Europe, Hong Kong, Mexico, New Zealand, Singapore, South Korea, USA	Japan
Antimicrobial & Antiparasitic Agents	17 September 1998 WO00/15240	Australia, Europe, Mexico, New Zealand, Singapore, South Korea, USA	Brazil, Canada, China, Japan
Agents for the Prevention & Treatment of Sexually Transmitted Diseases-I	30 March 2001 WO02/079299	Australia, China, Europe, Japan, Mexico, New Zealand, Singapore, South Korea, USA	Brazil, Canada, Hong Kong, USA
Delivery System	18 October 2005 WO07/045009		Argentina, Australia, Canada, China, Europe, Hong Kong, India, Japan, Malaysia, Mexico, New Zealand, Russian Federation, South Korea, Taiwan, USA
Composition	22 March 2006 WO07/082331		Australia, Canada, China, Europe, Japan, USA
Platform Patent Portfolio			
Macromolecules Compounds having Controlled Stoichiometry	25 October 2005 WO07/048190		Australia, Canada, Europe, USA
Modified Macromolecule	10 August 2006 WO07/082331		Australia, Canada, China, Europe, India, Japan, USA
Dendritic Polymers with Enhanced Amplification and Interior Functionality (Priostar)	20 April 2005 WO06/065266	South Korea, Singapore	Argentina, Brazil, Canada, China, Europe, Hong Kong, India, Israel, Japan, Mexico, New Zealand, Taiwan, USA
Dendritic Polymers with Enhanced Amplification and Interior Functionality (PEHAMS 2)	21 December 2005 WO06/115547	Australia	Argentina, Brazil, Canada, China, Europe, Hong Kong, India, Israel, Japan, Mexico, New Zealand, Singapore, South Korea, Taiwan, USA
Imaging Project Patent Portfolio			
Imaging Macromolecule	11 August 2006 WO08/017122		China, Europe, USA
siRNA Project Patent Portfolio			
Delivery of Biologically Active Materials Using Core-Shell Tecto(Dendritic Polymers)	3 March 2006 WO08/054466		Europe, USA
Drug Delivery Project Patent Portfolio			
Modified Macromolecule 2	11 August 2006 WO08/017125		China, Europe, India, USA

Corporate Directory

Company Name

Starpharma Holdings Limited ABN 20 078 532 180

Directors

P T Bartels AO – *Chairman*
J K Fairley – *Chief Executive Officer*
J W Raff – *Deputy Chairman*
R Dobinson
R A Hazleton
P J Jenkins

Company Secretary

B P Rogers

Registered office

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Auditor

PricewaterhouseCoopers
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Solicitors

Deacons
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Melbourne VIC 3000 Australia

Greenberg Traurig LLP
MetLife Building, 200 Park Avenue,
New York, NY 10166 USA

Stock exchange listing

ASX Limited
Level 45, South Tower, Rialto, 525 Collins Street,
Melbourne, Vic 3000, Australia

ASX Code: SPL

Starpharma's American Depositary Receipts (ADRs) trade under the code SPHRY (CUSIP number 855563102). Each Starpharma ADR is equivalent to ten ordinary shares of Starpharma as traded on the ASX. The Bank of New York Mellon is the depositary bank.

Starpharma's ADRs are listed on International OTCQX (www.otcqx.com), a premium market tier in the U.S. for international exchange-listed companies, operated by Pink OTC Markets, Inc.

Principal American Liaison (PAL) for International OTCQX: Merriman Curhan Ford & Co

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