

S T A R P H A R M A

A N N U A L R E P O R T

2 0 0 2



**B****U****S****I****N****E****S****S**

Starpharma's business is to create shareholder value through:

- > developing high-value dendrimer nanodrugs to address unmet market needs;
- > enabling the incorporation of dendrimer technology into new opportunities; and
- > enabling the use of dendrimer technology to enhance existing drug products.

#### **contents**

<b>1</b>	Starpharma Profile
<b>3</b>	Chairman's Message
<b>5</b>	CEO's Report
<b>7</b>	Dendrimer Disease Target – Focus
<b>9</b>	Dendritic Nanotechnologies Limited (DNT)
<b>11</b>	Quality Assurance and Regulatory Affairs
<b>11</b>	Analytical Dendrimer Chemistry
<b>12</b>	Dendrimer Drug Discovery
<b>12</b>	Intellectual Property and Commercialisation
<b>13</b>	Financial Statements



## Starpharma Profile

### *The company*

Starpharma is an Australian company leading the world in the creation of dendritic nanodrugs for human illnesses – using nanotechnology to address global health needs. Starpharma was established in 1996 as a pooled development fund (PDF) to invest in the research, development and commercialisation of dendrimers as pharmaceuticals. In the period since Starpharma was formed, interest in dendrimers and other dendritic polymers has escalated as the myriad applications of these nanoscale structures have become better understood.

Starpharma recently invested in Dendritic Nanotechnologies Limited (DNT), as a co-investor with a pioneer of dendrimer nanotechnology, Dr Donald Tomalia. DNT aims to commercialise dendrimer nanotechnology across a wide range of applications.

Starpharma's team of people has expertise in all areas associated with the development and commercialisation of dendrimer nanodrugs, including:

- synthetic medicinal chemistry
- analytical/bioanalytical chemistry
- biological research
- preclinical drug development
- quality assurance and regulatory affairs
- intellectual property and commercialisation management.

### *The technology*

Dendrimers are synthetic nanostructures with dimensions ranging from 1-100 nanometres. They are constructed in a series of generations around a central core using precise synthetic chemistry techniques. Smaller dendrimers can be combined to form larger, precise assemblies. Dendrimers belong to the dendritic class of polymers, which is recognised as the fourth major class of polymeric architecture after linear, cross-linked and branched polymers.

Dendrimers are about the size of typical proteins. They are highly water-soluble, and can be synthesised so that they are not easily broken down by the body's metabolic systems, and consequently have the potential to be used as longer acting and potentially more effective drugs. The structures and properties of dendrimers are highly defined, predictable, reproducible and adaptable. These properties make dendrimers and dendritic polymers as a class, eminently suitable for the creation of new nanoscale compositions of matter with applications in a wide range of industries including medical, electronics, chemicals and materials.



*...Starpharma  
has a leading  
intellectual property  
position in the  
application of  
dendrimers as  
pharmaceuticals...*



**BOARD OF DIRECTORS & COMPANY SECRETARY**  
Standing: *Ben Rogers (Company Secretary),  
Leon Gorr, Ross Dobinson, Peter Colman.*  
Seated: *John Raff (CEO),  
Richard Oliver (Chairman), Peter Jenkins.*



## Chairman's Message

Dear Shareholder,

We are pleased to present to you Starpharma's Annual Report for the year ending 30 June 2002. The aim of this report is to highlight and review Starpharma's key achievements in the past year and to provide an overview of the opportunities that exist for the company into the future.

Starpharma has a leading intellectual property position in the application of dendrimers as pharmaceuticals. One of our key achievements in the past year has been the completion of the venture with a pioneer of dendrimer technology, Dr Donald Tomalia. As a result, an Australian company, Dendritic Nanotechnologies Limited (DNT), was established as another company in the Starpharma group. Through its investment in DNT, Starpharma now has access to a dendrimer patent portfolio that covers a wide range of pharmaceutical and non-pharmaceutical applications.

Starpharma's other valuable asset is its team of highly skilled people whose expertise and experience will allow us to excel in the development, application and commercialisation of dendrimers as high-value pharmaceutical components and products.

In the year ahead, Starpharma intends to submit an Investigational New Drug (IND) application to the United States Food and Drug Administration (FDA) and to begin the world's first human clinical trials of a dendrimer nanodrug. These trials will be a major milestone in the application of dendrimers and will assist Starpharma in achieving its business goals.

Given the breadth of opportunities for dendrimer nanotechnologies, your company should be the partner-of-choice for commercial partners and licensees for the commercial applications of dendrimers.

On behalf of Starpharma, we thank you for your continuing support as a shareholder.

**Richard Oliver AM**  
CHAIRMAN





*...Starpharma  
has established  
a team with expertise  
in key disciplines  
of commercial  
drug discovery  
and development...*

## ***The Year in Review – Highlights 2001-2002***

- Establishment of Dendritic Nanotechnologies Limited (DNT)
- Significant strengthening of the company's intellectual property position with access to an extensive dendrimer patent portfolio through its collaboration with, and investment in, DNT
- Further positive results demonstrating activity of topical microbicide gel (SPL7013) against sexually transmitted diseases (STDs)
- Investigational New Drug application (IND) in preparation for submission to the US Food and Drug Administration (FDA)
- US National Institutes of Health (NIH) announced further support for major preclinical trials
- US patent number 6426067 granted – Angiogenic Inhibitory Compounds
- Further research evidence and development of dendrimers' activities as drug candidates against a range of diseases
- Significant expansion of Starpharma's internal expertise through proactive recruitment

## ***The Year Ahead***

- Submit IND for topical microbicide gel (SPL7013) to the US FDA
- Carry out the first human clinical trials of a dendrimer nanodrug product
- Complete NIH-supported animal trials of microbicide activity against chlamydia and HIV/SIV
- Scale-up manufacture process for SPL7013
- Convert DNT to a US incorporated company
- Generate novel dendrimer intellectual property
- Develop new dendrimer nanodrug candidates, e.g. genital herpes treatment
- Enter commercial and scientific collaborations with DNT and commercial partners
- Establish out-licensing opportunities
- Increased interaction with pharmaceutical companies via collaborative research and licensing
- Apply for further grants through international agencies to assist in funding of further research



H

I

G

H

L

I

G

H

T

S



## CEO's Report

Dear Shareholder,

During the 2001-2002 financial year Starpharma has been internationally recognised as a business with dendrimer intellectual property and expertise which is at the very core of the new science of nanotechnology. Dendrimer nanotechnology continues to develop worldwide as an area of major commercial interest, with the potential to transform industries by producing completely new proprietary products.

Starpharma has a leading portfolio of patents in the area of dendrimer-based nanodrugs, and this has recently been strengthened with the granting of the US patent, "Angiogenic Inhibitory Compounds". Starpharma has also established an in-house development team which is now poised to submit the first Investigational New Drug (IND) application based on dendrimer nanotechnology to the US Food and Drug Administration (FDA). Being the first applicant to the US regulatory authority with a completely new class of drug has involved significant challenges and we are very grateful for the continuing support from the US National Institutes of Health (NIH). This major milestone has also been made possible by the successful management of the complex development and regulatory issues by Starpharma's Development, and Quality and Regulatory teams headed by Dr Tom McCarthy and Dr Belinda Braggs. If the IND application is allowed by the FDA, the first human clinical trials of a dendrimer nanodrug will commence. This is expected to occur in early 2003.

The other major achievement for this financial year has been the establishment of Dendritic Nanotechnologies Limited (DNT) in partnership with Dr Donald Tomalia, the US inventor and pioneer of dendrimer technology. The establishment of DNT highlights Starpharma's position as a world leading company in dendrimer based pharmaceuticals and is opening up a wide range of business opportunities.

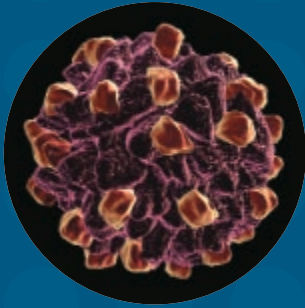
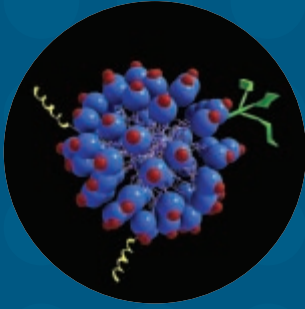
The complexity of establishing DNT as a new US-based business with intellectual property rights to 33 granted US dendrimer patents also demonstrates Starpharma's business management expertise led by Mr Tim Grogan. Starpharma now has exclusive commercialisation rights to new and existing intellectual property developed and owned by DNT, and relating to pharmaceutical applications of dendrimers.

During the year, Starpharma has consolidated its team of people with complementary expertise in a range of areas. Starpharma's scientific founders – Dr George Holan and Dr Barry Matthews – are well recognised internationally for their pioneering role in pharmaceutical dendrimer technology. The recent recruitment of Dr Guy Krippner as Head of Chemistry further strengthens the company's research and development activities. Our team now consists of people with extensive pharmaceutical industry experience, and skills in synthetic medicinal chemistry, intellectual property, commercialisation management and business administration.

Starpharma's key activities for the year ahead are the generation of a range of business activities and relationships arising from both Starpharma's and DNT's dendrimer expertise. DNT has commenced the manufacturing and marketing of dendrimers to a wide range of customers. Starpharma's strategic alliance with DNT will greatly assist in the marketing of Starpharma's business activities in both the USA and Japan. Part of Starpharma's business strategy is to work with pharmaceutical companies to enhance and extend patent positions in existing products by incorporating dendrimer technology. Starpharma is establishing collaborations, partnerships and licensing opportunities with key players in the pharmaceutical industry, as well as in other industries through our collaboration with DNT. Demonstration of the safety and performance of a dendrimer for use in humans will facilitate the development of collaborative partnerships and licence arrangements. Starpharma will also be able to leverage significant value from building in quality to its products at all stages of development. Other applications of Starpharma's lead compound, SPL7013, are being investigated and include a topical cream to treat genital herpes outbreaks.

The last 12 months have been challenging times for technology-based companies. However, Starpharma's strategic position in a major new field of commercial opportunity, together with the talented team we have built, gives us confidence in our ability to generate shareholder value.

**John W Raff, PhD**  
CHIEF EXECUTIVE OFFICER

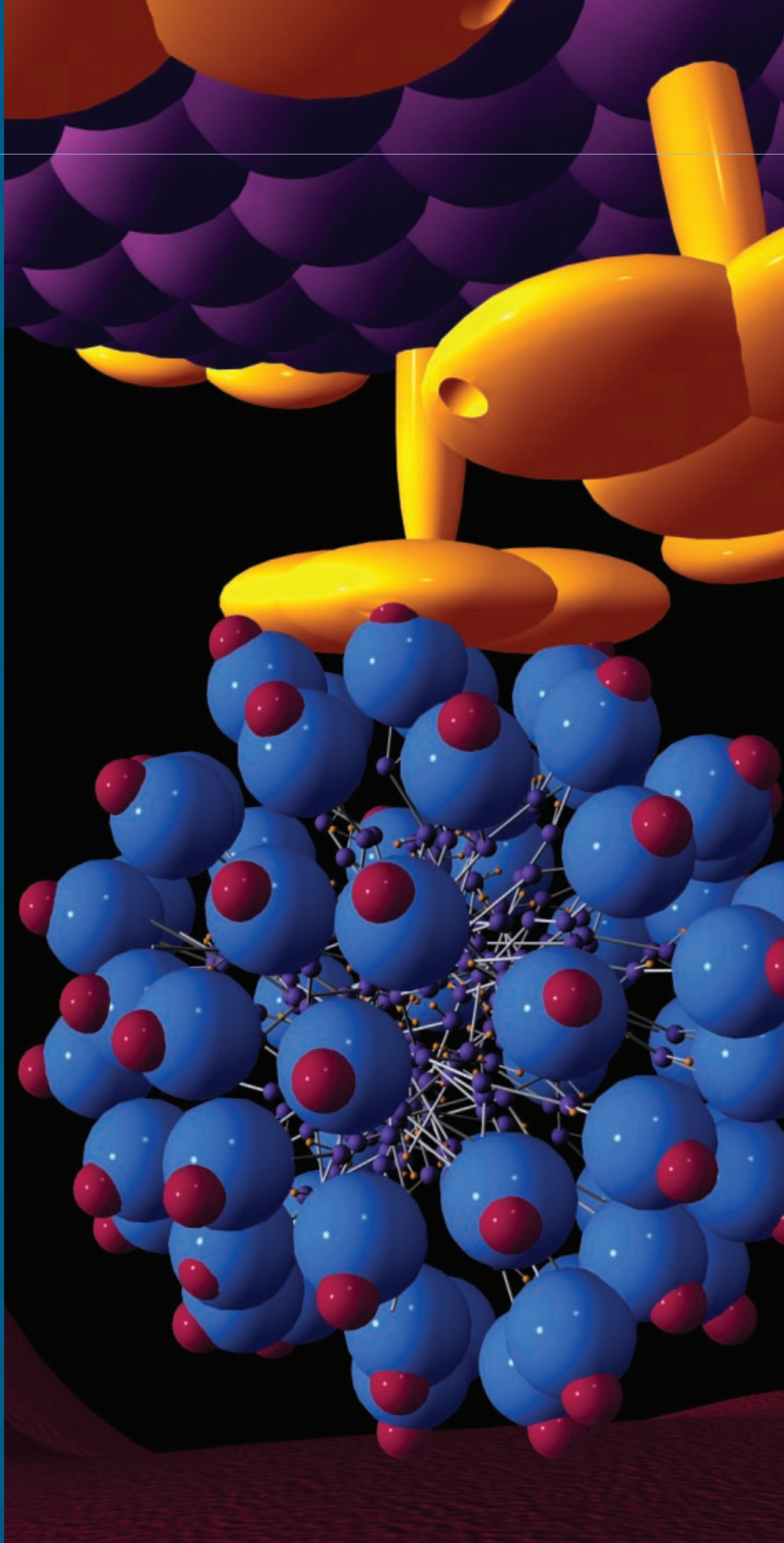


SECOND TOP *A dendrimer modified for pharmaceutical activity.*

CENTRE *A virus.*

BOTTOM *HIV (purple, with yellow spikes) infects human T-cells (pink).*

RIGHT *Dendrimer SPL7013 attaches to HIV and inhibits infection.*







## Dendrimer Disease Target – Focus

Starpharma's lead product in development is a topical microbicide gel that contains the dendrimer, SPL7013, as the active pharmaceutical ingredient to prevent the transmission of sexually transmitted diseases (STDs), such as HIV/AIDS and chlamydia, in women. Due to the importance of microbicidal agents in the battle against HIV/AIDS and other STDs such as chlamydia and herpes, the US government has provided support to microbicide development programs in the form of significant National Institutes of Health (NIH) funding.

Previously, SPL7013 has been shown to:

- inhibit the infection of healthy cells by various strains of HIV; and
- reduce the incidence of genital tract infection caused by chlamydia in mice.

In the past year, testing of SPL7013 has continued to produce further evidence that this dendrimer will be an effective topical microbicide agent. Results were obtained showing that SPL7013 is:

- active against a wide range of HIV-1 and HIV-2 strains; and
- not toxic at levels far above predicted therapeutic levels.

Based on these positive results, the United States NIH announced that it would fully fund further trials of SPL7013 to assess the ability of the topical microbicide gel to prevent HIV/SHIV and chlamydia infection in macaque monkeys, which are important models of these sexually transmitted diseases. These trials will provide valuable additional information about the microbicide gel that will assist with the approval and potential funding of large scale Phase II and III human clinical trials.

Starpharma is preparing an Investigational New Drug (IND) application for its topical microbicide gel product for submission to the US Food and Drug Administration (FDA). All preclinical testing required for the IND submission has been positive and Starpharma is continuing to interact with the regulatory authorities. We intend to submit our IND before the end of the current calendar year. If the IND application is allowed by the FDA the first human clinical trials of a nanoscale dendrimer drug product will commence. Starpharma will utilise Australian expertise when it conducts Phase I clinical trials at an Australian clinical trial centre.

SPL7013 has also been shown to reduce genital herpes infectivity in mice and guinea pigs, suggesting that the compound could be developed as a treatment for people with existing genital herpes infection.

### HIV/AIDS Statistics:

---

- > *At the end of 2001, approximately 40 million people worldwide were living with HIV/AIDS;*
  - > *An estimated 3 million of these are children younger than 15 years;*
  - > *Approximately 50 percent of adults living with HIV/AIDS worldwide are women;*
  - > *An estimated 5 million new HIV infections occurred worldwide during 2001 (about 14,000 each day, or about 10 every minute of the day);*
  - > *In 2001, HIV/AIDS-associated illness caused the deaths of approximately 3 million people worldwide, including about 580,000 children younger than 15 years;*
  - > *Approximately 900,000 US residents are infected with HIV, with one-quarter unaware of their infection;*
  - > *An estimated 40,000 new HIV infections occur each year in the United States.*
- 

### Sexually Transmitted Disease Statistics:

---

- > *15.3 million new cases of STDs occur each year in the US;*
  - > *Infection with Chlamydia trachomatis is the most common bacterial STD in the US, with an estimated 4 million new infections occurring annually;*
  - > *An estimated 89 million new chlamydial infections occurred worldwide in 1997;*
  - > *Chlamydial infections can lead to pelvic inflammatory disease in women, which can cause problems including infertility, ectopic pregnancy and chronic pelvic pain;*
  - > *About 45 million people in the United States are infected with HSV-2, the virus that causes genital herpes;*
  - > *Each year, chlamydial infection and genital herpes are estimated to cost the US more than US\$2 billion and US\$237 million (1994), respectively.*
- 

Sources: National Institute of Allergy and Infectious Disease (NIAID), NIH Fact Sheets (HIV/AIDS Statistics (August 2002), Chlamydial Infection (May 2002), STD Statistics (December 1998))



D E N D R I M E R  
N A N O T E C H  
P A R T N E R S



TOP *Dr Donald Tomalia, a dendrimer nanotechnology pioneer, now President and Chief Technology Officer of DNT.*

CENTRE *Park Library, Central Michigan University.*

BOTTOM *Central Michigan University.*



## Dendritic Nanotechnologies Limited (DNT)

DNT is an Australian company with US-based operations formed by Starpharma with a pioneer of dendrimer nanotechnology, Dr Donald Tomalia.

DNT is positioned to generate immediate revenue through the sale of high value research grade dendrimer products through leading fine chemicals distribution channels. High demand exists for reproducible, high quality dendrimer products and DNT will strive to meet these market needs.

Starpharma is collaborating with DNT to facilitate the implementation of ISO9001:2000 Quality Management Systems at DNT's operations base at Central Michigan University (CMU) in Mount Pleasant, Michigan, USA. DNT's quality management systems are designed to increase the value of dendrimer products by providing mechanisms to manage processes, manufacture consistent product, meet customer requirements and enhance customer satisfaction.

With the support of CMU, DNT has access to well equipped chemistry laboratories, and the company occupies offices in CMU's Center for Applied Research and Technology in Mount Pleasant.

The completion of the establishment phase of DNT earlier this year involved Dr Tomalia granting intellectual property licenses to DNT for the rights to 33 patent families involving 182 granted patents worldwide, related to dendrimers and dendritic polymers. Starpharma and DNT will enter commercial and scientific collaborations and develop partnerships with third parties to commercialise dendrimer nanotechnologies. This initiative not only expands and strengthens Starpharma's position in dendrimer-based pharmaceuticals but will also expose the company to a diverse range of other dendrimer-based product opportunities and provide immediate benefit through revenue generation from the sale of dendrimer products.

DNT will specialise in the synthesis of novel dendrimer structures and the creation of new intellectual property for a range of dendrimer applications. DNT intends to license the technology to other companies for the development of various applications. Starpharma is responsible for the development and commercialisation of pharmaceutical applications.

DNT is expanding its intellectual property portfolio and continues to establish novel dendritic scaffolds with potential to be adapted by Starpharma as active nanopharmaceuticals. The potential for dendrimers to be incorporated into new or existing products is significant. Already, dendrimers are used in ink toners, paints, chemical catalysts and other products.

DNT has significant and immediate funding opportunities through US government grants, which the company will initially use to expand critical instrument facilities. Through collaborations and partnerships with DNT, Starpharma will have access to this important equipment.

*In summary, DNT provides Starpharma with a number of opportunities:*

- Dr Tomalia's commitment to DNT has increased Starpharma's scientific and commercial profile in the USA;
- Starpharma will have development and commercialisation rights to existing and new intellectual property in DNT for pharmaceuticals and potentially in other specific biological applications. This will significantly broaden Starpharma's commercial involvement in areas such as drug delivery and diagnostics;
- Starpharma will benefit financially from its equity investment in DNT. The joint venture increases the opportunity for US investment (at US based capital values) in both DNT and Starpharma.



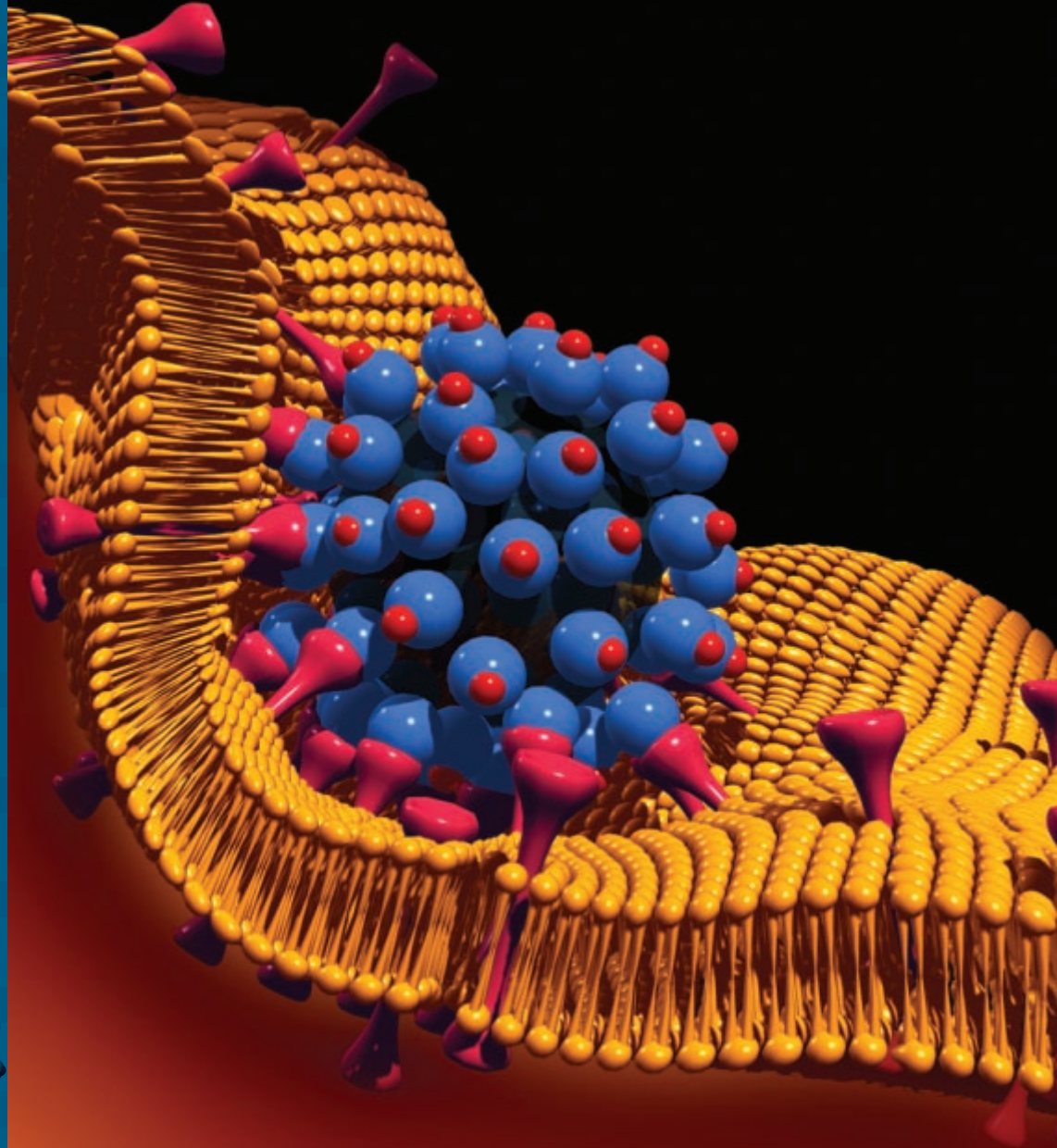
*ABOVE Dr John Raff with Dr Donald Tomalia at the completion of the establishment of DNT.*

*BELOW Members of the DNT team, Left to Right: Shu Guo, Jim Dewald, Linda Nixon, Roseita Esfand, Yogesh Gala, Boahua Huang, Rob Buckland, Donald Tomalia, Doug Swanson, Betsy Lehner.*





*...Starpharma has established quality management systems and regulatory affairs expertise...*



*RIGHT Dendrimers are capable of polyvalent interactions with receptors in a cell membrane.*



## Quality Assurance and Regulatory Affairs

In the past year, Starpharma has established quality management systems and regulatory affairs expertise to manage regulatory risk and provide ongoing contingencies for regulatory change. These systems have been implemented throughout the company and will in turn reduce risk for potential partners and licensees by ensuring the provision of quality data and maximising the probability of regulatory approval of Starpharma's products at all stages of development.

Quality management systems are critical to, and underpin, Starpharma's business strategy of developing dendrimer pharmaceutical products to the proof-of-concept stage in humans and the earlier out-licensing of products in non-core areas.

Starpharma's quality management systems have been developed in compliance with international standards, including:

- Title 21 of the United States Code of Federal Regulations – Food and Drugs (21 CFR):
  - 21 CFR Part 58 – Good Laboratory Practice (GLP) for Nonclinical Laboratory Studies;
  - 21 CFR Part 312 – Investigational New Drug Application; and
  - 21 CFR Part 11 – Electronic Records; Electronic Signatures.

Starpharma expects its contractors to meet similar quality and regulatory standards, including Good Manufacturing Practice (GMP) and Good Clinical Practice (GCP) where relevant, and has implemented programs to assure the quality of input and external service provided to the company.

Starpharma's Quality Management Team, consisting of the Chief Executive Officer and all senior managers, meets regularly to ensure that all aspects of the quality management system continue to improve and evolve over time.

Starpharma has gained valuable experience from the challenges of pioneering the first dendrimer-based drug product through the US regulatory system and having to create precedents at each step in the process. These challenges, while valuable, have also made product development timelines difficult to predict accurately.

In future, quality assurance systems and the management of regulatory risks will improve the predictability of development timelines and give products in development the greatest chance of regulatory approval by pharmaceutical regulatory bodies such as the FDA.



## Analytical Dendrimer Chemistry

One of the most critical aspects of pharmaceutical product development is the ability to accurately and consistently analyse active drug substances in the final formulated drug product and in biological samples such as plasma obtained during preclinical animal studies. Starpharma's analytical and bioanalytical chemistry team has been established and operates in compliance with FDA GLP regulation 21 CFR Part 58. The team will develop validated, regulatory-standard analytical and bioanalytical techniques for the analysis of dendrimers in formulated drug product and animal blood samples. Starpharma now has the ability to utilise in-house expertise for future preclinical stability and toxicology studies, which will significantly reduce the overall cost of these studies. In the year ahead, analytical test methods will be developed for the analysis of dendrimers in human blood samples to support Phase I clinical trials.





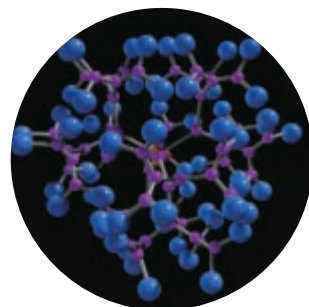
## Dendrimer Drug Discovery

Starpharma continues to demonstrate that dendrimers are highly active *in vitro* against a wide range of infectious micro organisms. Once we have created the precedent for regulatory approval of dendrimer-based drugs, Starpharma will seek development partnerships and license arrangements with pharmaceutical companies over the broad range of diseases where active compounds have been identified.

Starpharma is developing dendrimers as angiogenic inhibitory compounds that are targeted at both the treatment of existing cancer and the prevention of cancer spread (metastasis). Angiogenesis is the growth of new blood vessels to cancerous tumours, a key process in cancer tumour growth. The NIH is continuing to provide support for compounds in development. According to industry estimates angiogenesis is one of the most heavily funded areas of medical research. The market potential of angiogenesis inhibitor drugs is indicated by the market value of all cancer drugs, which in 2000 was approximately US\$8 billion, growing at a rate of 10% per annum (Scrip Report – Angiogenesis: A Therapeutic and Market Outlook, 2002).

Starpharma recently employed Dr Guy Krippner, an experienced synthetic medicinal chemist to head the company's chemistry team. It is the aim of the chemistry team to continue to generate novel intellectual property and to provide the development team with a product pipeline for commercialisation.

Starpharma now occupies a state-of-the-art facility in the Baker Heart Research Building in Commercial Road, Prahran, Victoria, Australia. Starpharma's drug discovery, biological research, analytical chemistry and product development teams are now integrated in one location and provide support to each other.



## Intellectual Property and Commercialisation

In the past year, Starpharma's IP position relating to dendrimers as pharmaceuticals was further strengthened.

The granting of the patent titled "Angiogenic Inhibitory Compounds" (US Patent Number 6426067) by the United States Patent and Trademark Office provides Starpharma with broad patent rights related to dendrimer-based products that inhibit angiogenesis, a key process in cancer tumour growth and metastasis (spread). This US patent is exclusively licensed to Starpharma by the Biomolecular Research Institute and complements other patents in the dendrimer pharmaceutical area.

Starpharma's commercialisation opportunities are significantly strengthened through its relationship with DNT. On its formation, DNT was granted intellectual property licences for the rights to 33 patent families involving 182 granted patents worldwide relating to dendrimers and dendritic polymers. Applications of DNT's IP include nanomaterials, drug delivery, diagnostics, gene transfection and gene therapy, water-soluble metals, chemical catalysts, optical and electro-active applications and new dendrimer structures. Starpharma received an exclusive licence to nanodrug applications of the existing intellectual property licensed to DNT and new intellectual property created by scientists at DNT.

Importantly, Starpharma's Manager of Intellectual Property and Commercial Development, Mr Tim Grogan, was able to successfully manage the intricacies of the deal between Starpharma and several other parties to achieve a successful and timely completion of the establishment phase of DNT.



SECOND TOP A nanoscale dendrimer scaffold with capping groups (blue).

CENTRE A Bacterium.

BOTTOM A Core Shell Tecto-dendrimer – an assembly of small dendrimers with unique properties and applications.



F I N A N C I A L

S T A T E M E N T S

#### **contents**

- 14 Company Particulars
- 15 Directors' Report
- 24 Corporate Governance Statement
- 26 Statements of Financial Performance
- 27 Statements of Financial Position
- 28 Statements of Cash Flows
- 29 Notes to the Financial Statements
- 45 Directors' Declaration
- 46 Independent Audit Report to the Members
- 47 Shareholder Information



## Company Particulars

<b>COMPANY NAME</b>	Starpharma Pooled Development Limited ABN 20 078 532 180
<b>DIRECTORS</b>	R J D Oliver AM ( <i>Chairman</i> ) P M Colman BSc (Hons), PhD, FAA, FTSE R Dobinson B Bus (Acc) P J Jenkins MB, BS (Melb), FRACP L Gorr B Juris, LLB, M.Admin J W Raff Dip Ag Sc, BSc, PhD
<b>CHIEF EXECUTIVE OFFICER</b>	J W Raff Dip Ag Sc, BSc, PhD
<b>SECRETARY</b>	B P Rogers
<b>REGISTERED OFFICE</b>	Level 6, Baker Heart Research Building Commercial Road, Prahran Victoria 3181  Telephone (03) 8532 2700 Facsimile (03) 9510 5955
<b>NOTICE OF ANNUAL GENERAL MEETING</b>	The annual general meeting of Starpharma Pooled Development Limited will be held at: ASX Theatre (530 Collins Street, Melbourne) Time: 4:00pm Date: Wednesday 27 November 2002
<b>SHARE REGISTER</b>	Computershare Registry Services Pty Ltd Level 12 565 Bourke Street Melbourne VIC 3000 Telephone (03) 9615 5970 Facsimile (03) 9611 5710
<b>STOCK EXCHANGE LISTING</b>	Australian Stock Exchange Limited (ASX) Level 3, 530 Collins Street Melbourne VIC 3000 Australia ASX Code: SPL
<b>AUDITOR</b>	PricewaterhouseCoopers 333 Collins Street Melbourne VIC 3000 Australia
<b>SOLICITORS</b>	Blake Dawson Waldron Level 39, 101 Collins Street Melbourne VIC 3000 Australia
<b>BANKERS</b>	Commonwealth Bank of Australia
<b>WEBSITE</b>	<a href="http://www.starpharma.com">www.starpharma.com</a>





## Directors' Report

Your directors present their report on the consolidated accounts of Starpharma Pooled Development Limited and the entities it controlled at the end of, or during, the year ended 30 June 2002.

### **DIRECTORS**

The following persons were directors of Starpharma Pooled Development Limited during the whole of the financial year and up to the date of this report:

R J D Oliver (*Chairman*)  
P M Colman  
R Dobinson  
L Gorr  
P J Jenkins  
J W Raff

### **PRINCIPAL ACTIVITIES**

During the year the principal activity of the consolidated entity constituted by Starpharma Pooled Development Limited and the entities it controlled consisted of investment in, and management and funding of dendrimer based research, development and commercialisation. New activity resulting from acquisition of a controlled entity resulted in a significant change in the nature of the activities of the consolidated entity during the financial year.

### **REVIEW OF OPERATIONS AND CONSOLIDATED RESULTS**

#### ***Operating Loss***

For the year ended 30 June 2002 the consolidated entity incurred an operating loss after income tax of \$7,906,131 (2001: \$3,906,427). Expenditure on direct research activities was \$6,227,723 (2001: \$4,004,525).

#### ***Corporate Structure***

The consolidated entity is structured as a Pooled Development Fund ("PDF") registered under the PDF Act 1992 (Cth). Starpharma Pooled Development Limited has four wholly-owned subsidiary companies – Starpharma Limited, Viralstar Limited, Angiostar Limited, Preclin Pty Limited and a fifth subsidiary - Dendritic Nanotechnologies Limited (DNT). DNT was registered on 6 August 2001 as an Australian company with operations in the USA. On completion of establishment on 21 June 2002, Starpharma Pooled Development Limited held 55% of the issued shares of DNT.

#### ***Research, Development and Commercialisation Activities***

The consolidated entity's research, development and commercialisation activities are managed by the controlled entity Starpharma Limited, and are directed towards the application of dendrimer nanotechnologies to develop drugs against major diseases. Starpharma Limited's business strategy is to prove the dendrimer pharmaceutical concept in clinical trials for its lead product, prior to licensing. The strategy also involves working with partners and licensees to achieve commercialisation of the dendrimer technology across a broad range of pharmaceutical applications. This will involve collaborating at an early stage with pharmaceutical partners for the development of Starpharma Limited's other dendrimer-based products, as well as assisting these partners to integrate dendrimer technology into their own product portfolios.

#### ***Lead product development***

The lead product in development is a topical microbicide gel containing the dendrimer SPL7013 for prevention of the transmission of sexually transmitted diseases such as HIV. Starpharma Limited is preparing to submit an Investigational New Drug application (IND) to the US Food and Drug Administration (FDA) for approval of human trials for this product. All studies required for the IND submission have been completed, and Starpharma Limited is continuing to interact with the regulatory authorities with the intention of submitting the IND by December 2002. Approval of the IND by the FDA will facilitate the commencement of the first human clinical trials of a nanoscale dendrimer drug product, and Starpharma Limited expects to commence these trials at an Australian clinical trials centre in early 2003.



## Directors' Report cont.

In addition to the topical microbicide project, activities continue to be directed towards the development of preventives or treatments for herpes, cancer (tumour related), toxin-related illnesses, and other opportunistic applications that arise out of the major research programs.

Upon achieving the milestone of regulatory approval for the first dendrimer-based drug, Starpharma Limited intends to seek development partnerships and license arrangements with pharmaceutical companies over the broad range of diseases where active compounds have been identified.

### ***Dendritic Nanotechnologies Limited***

At the date of this report Starpharma Pooled Development Limited owned 55% of the issued shares of Dendritic Nanotechnologies Limited (DNT), an Australian company with US-based operations. DNT was established by Starpharma Pooled Development Limited with a pioneer of dendrimer nanotechnology (Dr Donald Tomalia), and has intellectual property licenses for the rights to 33 patent families involving 182 granted worldwide patents related to dendrimers and dendritic polymers. DNT has a laboratory and offices in Mt Pleasant, Michigan, USA.

DNT's strategy is to facilitate the commercialisation of dendrimer nanotechnology across a broad range of life-science and non-life-science fields of application. Its immediate objectives are to generate revenue through the sale of high value, research grade dendrimer products, to create new intellectual property for a range of dendrimer applications and to enter into commercial development partnerships.

Starpharma Limited has exclusive rights for the development and commercialisation of certain dendrimers which exhibit pharmaceutical activity and which are generated from DNT's intellectual property. The DNT relationship will allow Starpharma Limited to be a participant in a number of commercialisation projects such as drug delivery, biological thin film coatings and allergen skin testing, arising from the US interest in the joint venture.

### ***Quality Assurance and Regulatory Affairs***

During the year, Starpharma Limited established quality assurance systems and developed regulatory affairs expertise to manage regulatory risk. These systems have been implemented throughout the Company, and will reduce risk for potential partners and licensees by ensuring the provision of quality data and enhancing the prospects for regulatory approval of Starpharma Limited's products at all stages of development.

Starpharma Limited's quality management systems have been developed in compliance with international standards, including:

- Title 21 of the United States Code of Federal Regulations – Food and Drugs (21 CFR):
  - 21 CFR Part 58 – Good Laboratory Practice (GLP) for Nonclinical Laboratory Studies;
  - 21 CFR Part 312 – Investigational New Drug Application; and
  - 21 CFR Part 11 – Electronic Records; Electronic Signatures.

Starpharma Limited expects its contractors to meet similar quality and regulatory standards, including Good Manufacturing Practice (GMP) and Good Clinical Practice (GCP), where relevant, and has implemented programs to assure the quality of input and external service provided to the Company.

Quality assurance systems are critical to Starpharma Limited's business strategy of developing dendrimer pharmaceutical products to the proof-of-concept stage in humans and the earlier out-licensing of products in non-core areas.

### ***New Laboratories and Corporate Offices***

During the year Starpharma Pooled Development Limited and its subsidiary companies relocated to Level 6 of the new Baker Heart Research Building in Commercial Road, Prahran, Victoria, Australia. The premises have been fitted out as a state-of-the-art facility for dendrimer-based drug discovery, biological research, and analytical chemistry. The Company's corporate headquarters and product development team are now integrated with the research group at a single location.



### **DIVIDENDS**

No dividend has been paid or declared since the end of the previous financial year, and the directors do not recommend the declaration of a dividend.

### **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

The establishment of the 55% owned subsidiary company Dendritic Nanotechnologies Limited during the year has expanded and strengthened the consolidated entity's position in dendrimer-based pharmaceuticals and will also expose the consolidated entity to a diverse range of other dendrimer-based product opportunities.

During the year Starpharma Pooled Development Limited also registered the wholly owned subsidiary company Preclin Pty Limited but this company has not yet commenced operations.

In the opinion of the directors there were no other significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review not otherwise disclosed in this report or in the financial statements.

### **MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR**

#### ***Granting of US Patent - Angiogenic Inhibitory Compounds***

On 5 August 2002 Starpharma Pooled Development Limited announced to the Australian Stock Exchange Limited that it had received notification of issue of US Patent No. 6426067 from the United States Patent and Trademark Office. The patent is exclusively licensed by the Biomolecular Research Institute Limited to Starpharma Limited, a wholly-owned subsidiary of Starpharma Pooled Development Limited. The inventors named on the patent, Dr Barry Matthews and Dr George Holan, are both now employed by Starpharma Limited. The granting of this patent titled "Angiogenic Inhibitory Compounds" provides Starpharma Limited with broad patent rights related to dendrimer-based products that inhibit angiogenesis (blood vessel growth), a key process in cancer tumour growth and spread.

#### ***Employee share options***

2,360,000 Executive and Employee Share Options, exercisable at 93.75 cents, are due to expire on 28 September 2002.

On 16 September 2002 the Company announced to the ASX that the Board would not recommend extending or otherwise amending the terms of these options.

On 21 July 2002 the Company accepted an application from Dr Donald Tomalia for 200,000 options to be granted under the Starpharma Pooled Development Limited Employee Share Option Plan (ASX code SPLAM).

#### ***Other***

No other matter or circumstance has arisen since 30 June 2002 that has significantly affected, or may significantly affect:

- (a) the consolidated entity's operations in future financial years, or
- (b) the results of those 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 consolidated entity will continue its activities as described. Further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.



## Directors' Report cont.

### INFORMATION ON DIRECTORS

DIRECTOR	EXPERIENCE	SPECIAL RESPONSIBILITIES	PARTICULARS OF DIRECTORS' INTERESTS IN SHARES AND OPTIONS	
			SHARES	OPTIONS
<i>RJD Oliver</i> <small>AM</small>	Non-executive director for 5 years Former Executive Chairman, Richard Oliver International Pty Ltd, a global risk management consulting group that he had established in 1972 and Willis Corroon Richard Oliver Pty Ltd.	Non-executive Chairman. Chairman of Remuneration Committee.	4,768,000	360,000
<i>PM Colman</i> <small>BSc(Hons) PhD, FAA, FTSE</small>	Non-executive director for 5 years. Head, Structural Biology Division, The Walter & Eliza Hall Institute of Medical Research. Former Executive Director, Biomolecular Research Institute. Published widely in the field of structural biology. In 1983 his Laboratory determined the structure of the surface proteins of influenza virus, and a major result of that work was the discovery of Relenza. One of the founding directors of Biota Holdings Ltd.	Member of Research Committee.	5,982,482	280,000
<i>R Dobinson</i> <small>B. Bus (Acc)</small>	Non-executive director for 5 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 Acrux Ltd, Nutrihealth Pty Ltd, Plantic Technologies Ltd, and Roc Oil Company Ltd.	Chairman of Audit Committee. Member of Remuneration Committee.	4,705,289	280,000



## Directors' Report cont.

DIRECTOR	EXPERIENCE	SPECIAL RESPONSIBILITIES	PARTICULARS OF DIRECTORS' INTERESTS IN SHARES AND OPTIONS	
			SHARES	OPTIONS
<i>L Gorr, B. Juris</i> LLB, M.Admin	Member of Audit Committee. Non-executive director since May 2000. Senior Partner, Herbert Geer & Rundle. 29 years' experience as a solicitor. Extensive experience in providing advice on the negotiation and interpretation of technology licensing agreements. Clients include investors in, and advisors to the biotechnology industry.	Member of Audit Committee.	5,872,100	280,000
<i>PJ Jenkins</i> MB, BS (Melb), FRACP	Non-executive director for 5 years. Consultant physician and gastroenterologist. Holds a number of clinical and research positions with the Alfred Hospital and has held clinical positions with the Baker Medical Research Centre. Foundation director of Anadis Ltd, a listed bio-pharmaceutical company. Judge of the Australian Technology Awards for the past four years. Currently Executive Director of AusBio Ltd, an unlisted public biotechnology company.	Chairman of Research Committee.	1,874,000	280,000
<i>JW Raff</i> Dip., Ag. Sc., BSc, PhD	Previously General Manager of the Biomolecular Research Institute. Co-founder, director and major shareholder of a technology based agricultural seed company with subsidiary operations in India. Also founder and investor in a number of other start-up technology companies.	Chief Executive Officer.	4,333,581	600,000



## Directors' Report cont.

### DIRECTORS' MEETINGS

The number of meetings of the Company's Board of directors and of each committee held during the year ended 30 June 2002, and the numbers of meetings attended by each director were:

	FULL MEETINGS OF DIRECTORS		MEETINGS OF COMMITTEES					
	A	B	AUDIT		REMUNERATION		RESEARCH	
			A	B	A	B	A	B
Mr Richard Oliver	14	15	*	*	2	2	*	*
Prof Peter Colman	13	15	*	*	*	*	8	9
Mr Ross Dobinson	14	15	3	3	2	2	*	*
Mr Leon Gorr	14	15	3	3	*	*	*	*
Dr Peter Jenkins	15	15	*	*	*	*	8	9
Dr John Raff	15	15	*	*	*	*	9	9

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year.

\* = Not a member of the relevant committee.

### RETIREMENT, ELECTION AND CONTINUATION IN OFFICE OF DIRECTORS

Mr Leon Gorr 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.

### DIRECTORS' AND EXECUTIVES' EMOLUMENTS

The Remuneration Committee, consisting of two 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.

Executive remuneration and other terms of employment are reviewed annually against goals set at the start of the year, relevant comparative information and if required independent expert advice. As well as a base salary, remuneration packages include superannuation, retirement and termination entitlements, performance-related bonuses and fringe benefits. Executives are also eligible to participate in the Starpharma Pooled Development Limited Employee Share Option Plan.

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

Remuneration and other terms of employment for the Chief Executive Officer and certain other senior executives are formalised in service agreements.

Remuneration of non-executive directors is determined by the Board within the maximum amount approved by the shareholders from time to time.

The Board undertakes an annual review of its performance and the performance of the Board Committees against goals set at the start of the year. Performance related bonuses are available to executives. Bonuses are not payable to non-executive directors.



## Directors' Report cont.

Details of the nature and amount of each element of the emoluments of each director of Starpharma Pooled Development Limited and each of the 5 officers of the Company and the consolidated entity receiving the highest emoluments are set out in the following tables.

### NON-EXECUTIVE DIRECTORS OF STARPHARMA POOLED DEVELOPMENT LIMITED

NAME	BASE FEE	COMMITTEE FEES	SUPERANNUATION	TOTAL
Mr Richard Oliver, Chairman	35,000	-	-	35,000
Prof Peter Colman	23,148	-	1,852	25,000
Mr Ross Dobinson	23,148	-	1,852	25,000
Mr Leon Gorr	23,148	-	1,852	25,000
Dr Peter Jenkins	23,148	-	1,852	25,000

### EXECUTIVE DIRECTORS OF STARPHARMA POOLED DEVELOPMENT LIMITED

NAME	BASE SALARY	MOTOR VEHICLE	SUPERANNUATION	BONUS	OPTIONS	OTHER BENEFITS	TOTAL
	\$	\$	\$	\$	\$	\$	\$
<i>Dr John Raff</i>	212,500	33,246	32,825	-	-	2,657	281,228

### OTHER EXECUTIVES OF STARPHARMA POOLED DEVELOPMENT LIMITED OR SUBSIDIARY COMPANIES

NAME	BASE SALARY	MOTOR VEHICLE	SUPERANNUATION	BONUS	OPTIONS	OTHER BENEFITS	TOTAL
	\$	\$	\$	\$	\$	\$	\$
<i>Dr Barry Matthews</i> RESEARCH DIRECTOR	108,201	20,422	30,280	-	-	331	159,234
<i>Mr Tim Grogan</i> MANAGER, INTELLECTUAL PROPERTY AND BUSINESS DEVELOPMENT	115,990	22,571	17,862	-	-	1,062	157,485
<i>Mr Ben Rogers</i> COMPANY SECRETARY	89,748	22,605	13,521	-	-	672	126,546
<i>Dr Thomas McCarthy</i> DEVELOPMENT MANAGER	90,160	6,330	13,885	-	-	6,311	116,686

### Share options granted to directors and the most highly remunerated officers

Options over unissued ordinary shares of Starpharma Pooled Development Limited granted during or since the end of the financial year to any of the directors or the 5 most highly remunerated officers of the Company and consolidated entity as part of their remuneration were as follows:

	OPTIONS ISSUED
<i>Mr Tim Grogan</i> MANAGER, INTELLECTUAL PROPERTY AND BUSINESS DEVELOPMENT	100,000
<i>Dr Thomas McCarthy</i> DEVELOPMENT MANAGER	100,000

The options were granted under the Starpharma Pooled Development Limited Employee Share Option Plan (ASX code SPLAM) on 12 April 2002.



## Directors' Report cont.

### **Shares under option**

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

	NUMBER	ISSUE PRICE OF SHARES	EXPIRY DATE
Starpharma Pooled Development Limited Executive and Employee Share Option Plan (ASX code SPLAK)	2,360,000	93.75 cents	28 September 2002
Starpharma Pooled Development Limited Employee Share Option Plan (ASX code SPLAM)	300,000	93.75 cents	31 January, 2005
	240,000	93.75 cents	11 April 2007

Options issued under Plan SPLAK are exercisable during the period from 1 February 2002 to 28 September 2002. 300,000 options issued under Plan SPLAM are exercisable during the period from 1 January 2003 to 31 December 2005. 240,000 options issued under Plan SPLAM are exercisable during the period from 12 April 2004 to 11 April 2007. No option holder has any right under the options to participate in any other issue of the Company or of any other entity.

### **Shares Issued on the Exercise of Options**

No shares in Starpharma Pooled Development Limited have been issued on the exercise of options.

### **INSURANCE OF OFFICERS**

During the financial year Starpharma Pooled Development Limited and officers of the Company and related bodies corporate arranged a Directors' and Officers' Liability insurance policy to indemnify certain officers of the Company and related bodies corporate. It is a condition of the policy that the Company not publish details of the nature of the liabilities insured by the policy or the amount of the premium paid.

The officers of the Company covered by the insurance policy include the directors and executive officers.

### **AGREEMENT TO INDEMNIFY OFFICERS**

The Company has agreed to indemnify the directors of the Company and its controlled entities (subject to certain qualifications):

- (i) against all liabilities incurred while acting in their capacity of an officer of the Company or any related body corporate of the Company unless the liability arises out of conduct involving lack of good faith; and
- (ii) for costs and expenses incurred by a director in defending any proceedings in which judgment is given in favour of the director or in which the director is acquitted.

Under the agreements the Company must maintain a Directors' and Officers' Liability insurance policy while the director holds office and for a further 7 years after the director ceases to be a director of the Company or of any related bodies corporate.

### **ENVIRONMENTAL REGULATIONS**

The consolidated entity has complied with all applicable environmental regulations.





## Directors' Report cont.

### 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.

**R J D Oliver**

DIRECTOR

30 September, 2002  
Melbourne



## Corporate Governance Statement

A description of the Company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year.

### THE BOARD OF DIRECTORS AND ITS COMMITTEES

The Board is responsible for the overall corporate governance of the Company and its controlled entities, including development of corporate strategies, establishing goals for management and monitoring progress towards the achievement of these goals.

### COMPOSITION OF THE BOARD

The constitution of the Company requires that one third of 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. The minimum number of directors is three and the maximum is fifteen unless the Company passes a resolution varying that number.

The Chairman is an independent non-executive director who is elected by the full Board.

At the date of signing the Directors' Report the Board consisted of five non-executive directors and one executive director, Dr J W Raff. Details of the directors at the date of this statement are set out in the Directors' Report under the heading "Information on Directors".

### INDEPENDENT PROFESSIONAL ADVICE

Directors have the right, in connection with their duties and responsibilities as directors, 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.

### ADMINISTRATIVE STRUCTURE AND INTERNAL CONTROL FRAMEWORK

Board meetings are held on a monthly basis, or more frequently if required. A detailed management report is prepared by senior management and distributed with Board papers prior to each meeting. The Chief Executive Officer and the Company Secretary attend all Board meetings.

The Board reviews and approves the investment plans and annual budget for the Company and oversees the research & development plans of investee companies.

### ETHICAL STANDARDS

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.

### TRADING IN COMPANY SECURITIES

The purchase and sale of Company securities by directors, executives and employees is only permitted during the thirty day period following the annual general meeting and the release of the half yearly and annual financial results to the market, unless prior approval is given to each transaction by the Chairman.



## Corporate Governance Statement cont.

### COMMITTEES

The Board has established the following Committees to assist in the discharge of its responsibilities:

#### **Audit Committee**

The Audit Committee consists of Mr Ross Dobinson (Chairman) and Mr Leon Gorr. The Committee meets at least twice a year, and has direct access to the Company's auditors. The charter of the Audit Committee is:

- to review and report to the Board on the annual report and financial statements, and to review the adequacy of external audit arrangements, particularly the scope and quality of the audit.
- to provide assurance to the Board that it is receiving adequate, up to date and reliable information;
- to assist the Board in reviewing the effectiveness of the Company's internal control environment covering:
  - effectiveness and efficiency of operations
  - reliability of financial reporting
  - compliance with applicable laws and regulations;
- to assist the Board in the development and monitoring of risk management, statutory compliance and ethics programs.

#### **Remuneration Committee**

The Remuneration Committee advises the Board on remuneration policies and practices and reviews the performance and remuneration of executive directors, other senior executives and non-executive directors. This Committee consists of:

Mr Richard Oliver (*Chairman*)  
Mr Ross Dobinson

#### **Research Committee**

This is a Committee of the Board of the controlled entity Starpharma Limited and consists of Dr Peter Jenkins (Chairman), Prof Peter Colman and Dr John Raff. The charter of the Research Committee is:

- to ensure that the Board of Starpharma Limited is kept fully informed of developments relating to the Company's research activities and development progress against milestones; and
- to advise the Board of Starpharma Pooled Development Limited on scientific matters in relation to the Company's continuous disclosure obligations under the Listing Rules of the Australian Stock Exchange Limited.

The Committee members have been chosen on the basis of their expertise and the composition of the Committees is reviewed annually by the Board.

### THE ENVIRONMENT, OCCUPATIONAL HEALTH AND SAFETY

The Board recognises the importance of environmental and occupational health and safety issues and is committed to the highest levels of performance. During the year, the Company adopted an Occupational Health and Safety (OH&S) Policy and established an OH&S Committee as part of its overall approach to workplace safety. This Committee meets regularly to ensure the development and implementation of OH&S policy and procedures, and to ensure compliance with relevant legislation and guidelines.

The Chief Executive Officer is represented on the OH&S Committee by the Company Secretary.

### CONTINUOUS DISCLOSURE

The Company Secretary has been appointed as the person responsible for communications with the Australian Stock Exchange Limited (ASX). This person is also responsible for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.



## Statements of Financial Performance

	NOTES	CONSOLIDATED		PARENT ENTITY	
		2002 \$	2001 \$	2002 \$	2001 \$
Revenue from ordinary activities	2	1,328,618	1,964,151	893,899	964,590
Administration expense		(2,837,138)	(1,498,347)	(966,621)	(268,344)
Research and development expense	3	(6,227,723)	(4,004,525)	-	-
Occupancy expense		(14,836)	(18,496)	-	-
Investment expense	3	-	-	(17,860,494)	-
Other expense from ordinary activities		(208,210)	(349,210)	-	-
<i>PROFIT (LOSS) FROM OPERATING ACTIVITIES BEFORE TAX</i>	3	(7,959,289)	(3,906,427)	(17,933,216)	696,246
Income tax attributable to ordinary activities	4	-	-	-	-
<i>PROFIT (LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX</i>		(7,959,289)	(3,906,427)	(17,933,216)	696,246
Profit (Loss) attributable to outside equity interest	15	53,158	-	-	-
<i>PROFIT (LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX</i>	14	(7,906,131)	(3,906,427)	(17,933,216)	696,246
Basic Earnings/(Loss) per share	26	<b>CENTS</b> (8.90)	<b>CENTS</b> (4.74)		
Diluted Earnings/(Loss) per share	26	(8.60)	(4.59)		

The above statements of financial performance should be read in conjunction with the accompanying notes.



## Statements of Financial Position

	NOTES	CONSOLIDATED		PARENT ENTITY	
		2002	2001	2002	2001
		\$	\$	\$	\$
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash assets	5	17,434,235	25,412,466	15,907,244	23,886,871
Receivables	6	150,384	305,208	196,165	42,376
Other	7.1	252,993	71,541	53,295	4,909
<i>TOTAL CURRENT ASSETS</i>		17,837,612	25,789,215	16,156,704	23,934,156
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	8	947,581	236,240	-	-
Other financial assets	9	-	-	-	10,000,006
Other	7.2	74,240	-	-	-
<i>TOTAL NON-CURRENT ASSETS</i>		1,021,821	236,240	-	10,000,006
<b>TOTAL ASSETS</b>		<b>18,859,433</b>	<b>26,025,455</b>	<b>16,156,704</b>	<b>33,934,162</b>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Payables	10	1,243,982	1,044,934	164,063	8,305
Provisions	11	178,365	64,868	-	-
Other	12	170,759	-	-	-
<i>TOTAL CURRENT LIABILITIES</i>		1,593,106	1,109,802	164,063	8,305
<b>TOTAL LIABILITIES</b>		<b>1,593,106</b>	<b>1,109,802</b>	<b>164,063</b>	<b>8,305</b>
<b>NET ASSETS</b>		<b>17,266,327</b>	<b>24,915,653</b>	<b>15,992,641</b>	<b>33,925,857</b>
<b>EQUITY</b>					
Contributed Equity	13	33,034,058	33,034,058	33,034,058	33,034,058
Retained profits (Accumulated losses)	14	(16,024,536)	(8,118,405)	(17,041,417)	891,799
Outside Equity Interests In Controlled Entities	15	256,805	-	-	-
<b>TOTAL EQUITY</b>		<b>17,266,327</b>	<b>24,915,653</b>	<b>15,992,641</b>	<b>33,925,857</b>

The above statements of financial position should be read in conjunction with the accompanying notes.



## Statements of Cash Flows

	NOTES	CONSOLIDATED		PARENT ENTITY	
		2002 \$	2001 \$	2002 \$	2001 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from trade and other debtors		1,057	178,052	-	-
Grant income (Inclusive of GST)		880,109	1,354,163	-	-
Payments to suppliers and employees (Inclusive of GST)		(9,080,254)	(5,025,504)	(948,362)	(292,791)
Interest received		888,419	1,039,554	829,223	925,465
<i>NET CASH INFLOWS (OUTFLOWS) FROM OPERATING ACTIVITIES</i>	20	(7,310,669)	(2,453,735)	(119,139)	632,674
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Payments to acquire shares in subsidiaries		-	-	(7,860,488)	(3,000,000)
Payments for property, plant and equipment		(884,713)	(181,919)	-	-
<i>NET CASH INFLOWS (OUTFLOWS) FROM INVESTING ACTIVITIES</i>		(884,713)	(181,919)	(7,860,488)	(3,000,000)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issue of shares		242,151	22,440,000	-	22,440,000
Share issue transaction costs		(25,000)	(1,617,610)	-	(1,617,610)
<i>NET CASH INFLOWS (OUTFLOWS) FROM FINANCING ACTIVITIES</i>		217,151	20,822,390	-	20,822,390
NET INCREASE (DECREASE) IN CASH HELD		(7,978,231)	18,186,736	(7,979,627)	18,455,064
CASH AT THE BEGINNING OF THE FINANCIAL YEAR		25,412,466	7,225,730	23,886,871	5,431,807
CASH AT THE END OF THE FINANCIAL YEAR		17,434,235	25,412,466	15,907,244	23,886,871

The above statements of cash flows should be read in conjunction with the accompanying notes.



# Notes to the Financial Statements

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

It is prepared in accordance with the historical cost convention. The accounting policies adopted are consistent with those of the previous year. Comparative information is reclassified where appropriate to enhance comparability.

### **(a) Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Starpharma Pooled Development Limited ('the Company' or 'Parent Entity') as at 30 June 2002 and the results of all controlled entities for the year then ended. Starpharma Pooled Development Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Where control of an entity is obtained during the financial year, its results are included in the consolidated statement of financial performance from the date on which control commences.

### **(b) Income tax**

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit or loss after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward unless the benefit is virtually certain of realisation.

### **(c) Receivables**

The debtors comprise grants receivable and they are recognised as they are due for settlement no more than 60 days from the date of recognition.

### **(d) Acquisition of assets**

The cost method of accounting is used for all acquisitions regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the acquisition date, unless the notional price at which they could be placed in the market is a better indicator of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

### **(e) Revenue recognition**

Amounts disclosed as revenue are payments under the Federal Government R&D START grant, interest income on short term deposits and sundry items. Revenue is recognised for the major business activities as follows:

#### **(i) Grant Funding**

Grant funding is provided under the consolidated entity's agreements with the Commonwealth of Australia. Grant funding is equivalent to 50% of the consolidated entity's spend on eligible research. Grant revenue is recognised when eligible research expenditure has been incurred.

### **(f) Recoverable amount of non-current assets**

The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal. Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is revalued to its recoverable amount. The decrement in the carrying amount is recognised as an expense in the statement of financial performance in the reporting period in which the recoverable amount write down occurs. In assessing recoverable amounts the relevant cash flows have not been discounted to their present value

### **(g) Depreciation and amortisation of property, plant and equipment**

Depreciation is calculated on a straight line basis to write off the net cost of each item of property, plant and equipment over its expected useful life to the consolidated entity. The expected useful life of items of property, plant and equipment ranges from 4 to 8 years.



## Notes to the Financial Statements cont.

### **(h) Leasehold Improvements**

The costs 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, whichever is the shorter. Leasehold improvements held at the reporting date are being amortised over 6 years.

### **(i) Employee entitlements**

#### *(i) Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, annual leave and sick leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

#### *(ii) Superannuation*

The consolidated entity contributes to employee superannuation on the basis of legal and contractual requirements, with contributions being charged against revenue.

#### *(iii) Long Service Leave*

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

### **(j) Research expenditure**

Research expenditure is charged against income when incurred.

### **(k) Trade and other creditors**

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year which are unpaid. These amounts are unsecured and are paid in accordance with supplier terms.

### **(l) Cash**

For the purpose of the statements of cash flows, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

### **(m) Transaction costs arising in relation to the issue of equity**

Transaction costs in relation to the future issue of equity are deferred and recognised directly as a reduction against the proceeds of the future capital raising to which they relate.

### **(n) Investments**

Investments in controlled entities are accounted for in the consolidated financial statements in the manner set out in Note 1(a).

### **(o) Earnings per share**

#### *(i) Basic Earnings per Share*

Basic Earnings per share is determined by dividing the net loss after income tax attributable to members of the Company, excluding any costs of servicing equity other than ordinary share, 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 income tax effect of interest and other financing costs associated with dilutive ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### **(p) Foreign Currency Translation**

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange at that date. Resulting exchange differences are recognised in determining the profit or loss for the year.





## Notes to the Financial Statements cont.

### q) *Web Site Costs*

Costs in relation to web sites controlled by a controlled entity are charged as expenses in the period in which they are incurred unless they relate to the acquisition of an asset, in which case they are capitalised and amortised over the period of expected benefit. As at the reporting date, all costs relating to web site development and maintenance for the controlled entities have been expensed.

### NOTE 2: REVENUE

	CONSOLIDATED		PARENT ENTITY	
	2002	2001	2002	2001
	\$	\$	\$	\$
REVENUE FROM OPERATING ACTIVITIES				
Government grants	383,646	886,194	-	-
Interest revenue	943,915	1,076,553	893,899	964,590
Other	1,057	1,404	-	-
	1,328,618	1,964,151	893,899	964,590

### NOTE 3: OPERATING PROFIT/LOSS

	CONSOLIDATED		PARENT ENTITY	
	2002	2001	2002	2001
	\$	\$	\$	\$
<i>(i) Operating expenses</i>				
Operating profit/loss for the year includes the following items:				
Depreciation (plant & equipment)	173,372	62,511	-	-
Employee entitlements	113,497	25,441	-	-
Research and development expense	6,227,723	4,004,525	-	-
Rental expense on operating leases	284,596	162,957	-	-
Foreign exchange gain (loss)	7,395	-	-	-
Write down of investments in controlled entities to recoverable amount	-	-	17,860,494	-
<i>(ii) Auditors' remuneration</i>				
Amounts received, or due and receivable, by the auditor of the consolidated entity for:				
Auditing and preparing the financial statements	77,124	54,550	77,124	-
Taxation services, other support	44,229	43,441	44,229	-



## Notes to the Financial Statements cont.

### NOTE 4: INCOME TAX

The income tax expense for the financial year differs from the amount calculated on the operating profit/(loss). The differences are reconciled as follows:

	CONSOLIDATED		PARENT ENTITY	
	2002 \$	2001 \$	2002 \$	2001 \$
Operating profit/(loss) before income tax	(7,959,289)	(3,906,427)	(17,933,216)	696,246
Income tax expense/(benefit) @ 30% (2001: 34%)	(2,387,787)	(1,328,185)	(5,379,965)	236,723
Tax effect of permanent differences:				
Entertainment	3,777	4,034	-	-
Research and development allowance	(183,390)	(119,000)	-	-
Writedown in carrying value of investments	-	-	5,358,148	-
Other	6,663	272	6,633	68
<b>INCOME TAX EXPENSE/(BENEFIT) ADJUSTED FOR PERMANENT DIFFERENCES</b>	<b>(2,560,737)</b>	<b>(1,442,879)</b>	<b>(15,184)</b>	<b>236,791</b>
Under/(over) provision arising in prior year	2,291	(93,528)	-	5,650
Less loss transferred to controlling entity	-	-	-	(242,441)
Future income tax benefits written off/not brought to account	2,558,446	1,536,407	15,184	-
Income tax expense/(benefit) attributable to operating profit/loss	-	-	-	-

#### **Future income tax benefits**

Potential future income tax benefits of \$4,949,705 (2001: \$2,673,980) attributable to tax losses carried forward by controlled entities and net future income tax benefits due to timing differences of \$223,584 (2001: net deferred tax liability of \$51,085) have not been brought to account at balance date because the directors do not believe it appropriate to regard the realisation of the future income tax benefits as virtually certain.

These benefits will only be obtained if:

- i. the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the loss to be realised; or
- ii. the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- iii. no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the loss.



## Notes to the Financial Statements cont.

### NOTE 5: CURRENT ASSETS – CASH ASSETS

	CONSOLIDATED		PARENT ENTITY	
	2002 \$	2001 \$	2002 \$	2001 \$
Cash at bank and on hand	3,965,225	3,419,476	2,438,234	1,893,881
Deposits at call	13,469,010	21,992,990	13,469,010	21,992,990
	17,434,235	25,412,466	15,907,244	23,886,871
Balance of cash as shown in the statements of cash flows	17,434,235	25,412,466	15,907,244	23,886,871

#### DEPOSITS AT CALL

The deposits are bearing floating interest rates of 4.77% (2001: 4.98%).

### NOTE 6: CURRENT ASSETS - RECEIVABLES

	CONSOLIDATED		PARENT ENTITY	
	2002 \$	2001 \$	2002 \$	2001 \$
Interest receivable	111,050	49,014	107,053	42,376
Other receivables	39,334	256,194	89,112	-
	150,384	305,208	196,165	42,376

#### INTEREST RECEIVABLE

The carrying amount of interest receivable approximates net fair values.

#### OTHER RECEIVABLES

The receivables comprise sundry debtors and are subject to normal terms of settlement within 60 days.

### NOTE 7.1: CURRENT ASSETS – OTHER

	CONSOLIDATED		PARENT ENTITY	
	2002 \$	2001 \$	2002 \$	2001 \$
Prepayments	47,492	12,777	29,600	-
GST Claimable	137,690	58,764	23,695	4,909
Future Rental Benefit	67,811	-	-	-
	252,993	71,541	53,295	4,909



## Notes to the Financial Statements cont.

### NOTE 7.2: NON-CURRENT ASSETS – OTHER

	CONSOLIDATED		PARENT ENTITY	
	2002 \$	2001 \$	2002 \$	2001 \$
Deferred costs of future capital raising	74,240	-	-	-

### NOTE 8: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	2002 \$	2001 \$	2002 \$	2001 \$
Plant and equipment (at cost)	1,206,961	322,248	-	-
Less: Accumulated depreciation	(259,380)	(86,008)	-	-
	947,581	236,240	-	-

### RECONCILIATIONS

Reconciliations of the carrying amounts of plant & equipment at the beginning and end of the current financial year are set out below.

	PLANT & EQUIPMENT	
	2002 \$	2001 \$
CONSOLIDATED		
Carrying amount at 1 July	236,240	116,832
Additions	884,713	181,919
Depreciation Expense	(173,372)	(62,511)
Carrying amount at 30 June	947,581	236,240

### NOTE 9: NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS NON-TRADED INVESTMENTS

	CONSOLIDATED		PARENT ENTITY	
	2002 \$	2001 \$	2002 \$	2001 \$
Shares in controlled entities – at cost	-	-	17,860,494	10,000,006
Provision for diminution in value	-	-	(17,860,494)	-
	-	-	-	10,000,006

At 30 June 2002, directors undertook to assess the recoverable amount of the parent entity's investments in its subsidiaries. Each subsidiary has a value which is directly linked to the potential cash flows which may be derived from the outcome of their respective research and development activities. At 30 June 2002, directors have assessed that there is not sufficient certainty with respect to those potential future cash flows to warrant the deferral of research and development expenditure (the recovery of which is not assured beyond reasonable doubt) and similarly, to support the carrying value of the parent entity's investments in its subsidiaries. As a result the carrying value of the parent entity's investments in its subsidiaries has been written down to nil as at 30 June 2002.



## Notes to the Financial Statements cont.

### NOTE 10: CURRENT LIABILITIES – PAYABLES

	CONSOLIDATED		PARENT ENTITY	
	2002 \$	2001 \$	2002 \$	2001 \$
Trade creditors	1,208,041	1,016,493	164,063	8,305
GST Payable	35,941	28,441	-	-
	<u>1,243,982</u>	<u>1,044,934</u>	<u>164,063</u>	<u>8,305</u>
<b>NOTE 11: CURRENT LIABILITIES – PROVISIONS</b>				
Employee entitlements	178,365	64,868	-	-
<b>NOTE 12: DEFERRED INCOME</b>				
Deferred Grant Income	170,759	-	-	-

### NOTE 13: CONTRIBUTED EQUITY

	CONSOLIDATED		PARENT ENTITY	
	2002 SHARES	2001 SHARES	2002 \$	2001 \$
<b>(a) Share Capital</b>				
Ordinary shares - fully paid	88,900,000	88,900,000	33,034,058	33,034,058
Former share premium account included in equity			2,500,000	2,500,000

#### **(b) Movements in ordinary contributed capital of the Company during the past two years were as follows:**

DATE	DETAILS	NUMBER OF SHARES	ISSUE PRICE	\$
30 June 2000	Balance	62,500,000		12,279,472
20 September 2000	Issue of Fully Paid Ordinary shares (i)	26,400,000	\$0.85	22,440,000
	Issue costs in relation to share issue			(1,685,414)
30 June 2001	Balance	88,900,000		33,034,058

#### **(i) Ordinary Shares**

On the 20 September 2000 the Company issued 26,400,000 at an issue price of \$0.85 per share. These 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.

### NOTE 14: RETAINED PROFITS (ACCUMULATED LOSSES)

	CONSOLIDATED		PARENT ENTITY	
	2002 \$	2001 \$	2002 \$	2001 \$
Retained profits (accumulated losses) at beginning of the year	(8,118,405)	(4,211,978)	891,799	195,553
Net profit (loss) for the year	(7,906,131)	(3,906,427)	(17,933,216)	696,246
Retained profits (accumulated losses) at end of the year	<u>(16,024,536)</u>	<u>(8,118,405)</u>	<u>(17,041,417)</u>	<u>891,799</u>



## Notes to the Financial Statements cont.

### NOTE 15: OUTSIDE EQUITY INTERESTS IN CONTROLLED ENTITIES

	CONSOLIDATED		PARENT ENTITY	
	2002	2001	2002	2001
	\$	\$	\$	\$
INTERESTS IN:				
Share Capital	309,963	-	-	-
Reserves	-	-	-	-
Retained Profits	(53,158)	-	-	-
OUTSIDE EQUITY INTEREST IN CONTROLLED ENTITIES	256,805	-	-	-

### NOTE 16: COMMITMENTS FOR EXPENDITURE

	CONSOLIDATED		PARENT ENTITY	
	2002	2001	2002	2001
	\$	\$	\$	\$
<b><i>Lease commitments</i></b>				
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
Not later than one year	288,548	76,604	-	-
Later than one year and not later than five years	477,850	85,514	-	-
Later than five years	-	-	-	-
Representing cancellable operating leases	766,398	162,118	-	-

A future commitment of US\$10,833.33 per month is payable by the controlled entity, Dendritic Nanotechnologies Limited, to Donald A. Tomalia in accordance with the terms of the Intellectual Property License Deed between the two parties.

### NOTE 17: CONTROLLED ENTITIES

#### *Investments in Controlled Entities*

	COUNTRY OF INCORPORATION	CLASS OF SHARES	2002 EQUITY	2001 EQUITY	COST OF PARENT ENTITY'S HOLDING INVESTMENT 2002	COST OF PARENT ENTITY'S HOLDING INVESTMENT 2001
Starpharma Limited	Australia	Ordinary	100%	100%	8,900,001	3,400,001
Angiostar Limited	Australia	Ordinary	100%	100%	3,300,005	3,300,005
Viralstar Limited	Australia	Ordinary	100%	100%	4,300,000	3,300,000
Preclin Pty Limited	Australia	Ordinary	100%	Nil	100	-
Dendritic Nanotechnologies Limited	Australia	Ordinary	55%	Nil	1,360,388	-
					17,860,494	10,000,006



## Notes to the Financial Statements cont.

### Acquisition of Controlled Entity

On 3 August 2001 Dendritic Nanotechnologies Limited was registered as a public company under the Corporations Act 2001 (Cth), with one ordinary share issued to Starpharma Pooled Development Limited. On 27 August 2001 Dendritic Nanotechnologies Limited issued 2,180,000 ordinary shares to Starpharma Pooled Development Limited at an issue price of US\$1.00 each, payable to US\$0.084 on application. The issue price of the shares was payable by way of 12 calls of equal amount, and payment of US\$181,667 for the first call accompanied the application. A further issue of Dendritic Nanotechnologies Limited shares on 21 June 2002 resulted in a dilutive impact on the parent entity's equity holding to 55%.

The operating results of this newly controlled entity have been included in the consolidated statement of financial performance since the date of acquisition.

On 28 February 2002 the parent entity acquired 100% of the issued share capital of Preclin Pty Limited (a dormant shelf company) for \$100.

### NOTE 18: REMUNERATION OF DIRECTORS

	DIRECTORS OF ENTITIES IN THE ECONOMIC ENTITY		DIRECTORS OF PARENT ENTITY	
	2002 \$	2001 \$	2002 \$	2001 \$
Income paid or payable, or otherwise made available, to directors of entities in the consolidated entity in connection with the management of affairs of the parent entity or its controlled entities	416,228	349,937	416,228	349,937

The numbers of parent entity directors whose total income from the parent entity or related parties was within the specified bands are as follows:

	2002	2001	2002	2001
\$ 20,000 - 29,999	4	5		
\$ 30,000 - 39,999	1	-		
\$ 230,000 - 239,999	-	1		
\$ 280,000 - 289,999	1	-		

### NOTE 19: REMUNERATION OF EXECUTIVES

	EXECUTIVE OFFICERS OF THE CONSOLIDATED ENTITY		EXECUTIVE OFFICERS OF THE PARENT ENTITY	
	2002 \$	2001 \$	2002 \$	2001 \$
Remuneration received, or due and receivable from entities in the consolidated entity and related parties by Australian based executive officers (including directors) whose remuneration was at least \$100,000:				
Executive officers of the parent entity	841,178	753,073	565,259	491,664



## Notes to the Financial Statements cont.

The numbers of Australian based executive officers (including directors) whose remuneration from entities in the consolidated entity and related parties was within the specified bands are as follows:

			EXECUTIVE OFFICERS OF THE CONSOLIDATED ENTITY		EXECUTIVE OFFICERS OF THE PARENT ENTITY	
			2002	2001	2002	2001
	\$	\$				
100,000	-	109,999	-	1	-	-
110,000	-	119,999	1	-	-	-
120,000	-	129,999	1	1	1	1
130,000	-	139,999	-	1	-	1
150,000	-	159,999	2	1	1	-
230,000	-	239,999	-	1	-	1
280,000	-	289,999	1	-	1	-

Options are granted to executive officers under the Starpharma Pooled Development Limited Executive and Employee Share Option Plan, details of which are set out in Note 25.

A summary of options granted and exercised by Australian based executive officers (with income of at least \$100,000) during the year ended 30 June 2002 is set out below.

	OUTSTANDING 30 JUNE 2001	GRANTED	EXERCISED	OUTSTANDING 30 JUNE 2002
Australian based executive officers of the parent entity	980,000	200,000	-	1,180,000

The amounts disclosed as remuneration of executive officers in this note include the assessed fair value of the options at the date they were granted to executive officers. On issue of the options, the exercise price was equivalent to the share price on the date of issue. After taking this into account and the earliest date on which the options may be exercised, namely 1 February 2002, the fair value of the options at the date of issue has been assessed as \$nil.

### NOTE 20: CASH FLOW INFORMATION

	CONSOLIDATED		PARENT ENTITY	
	2002 \$	2001 \$	2002 \$	2001 \$
RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES TO OPERATING PROFIT/(LOSS) AFTER INCOME TAX				
Operating profit/(loss) after income tax:	(7,959,289)	(3,906,427)	(17,933,216)	696,246
Depreciation and amortisation:	173,372	62,511	-	-
Change in operating assets and liabilities, net of effects of acquisitions and disposals of entities				
(Increase) decrease in receivables and other assets	154,824	393,029	(153,789)	(39,125)
(Increase) decrease in other operating assets	(113,641)	86,631	(48,386)	(4,909)
Increase (decrease) in trade creditors	149,809	885,080	155,758	(19,538)
Increase (decrease) in employee provisions	113,497	25,441	-	-
Increase (decrease) in deferred income	170,759	-	-	-
Write down of investments in controlled entities	-	-	17,860,494	-
Net cash inflows/(outflows) from operating activities	(7,310,669)	(2,453,735)	(119,139)	632,674





## Notes to the Financial Statements cont.

### NOTE 21: EVENTS SUBSEQUENT TO BALANCE DATE

#### *Granting of US Patent - Angiogenic Inhibitory Compounds*

On 5 August 2002 Starpharma Pooled Development Limited announced to the Australian Stock Exchange Limited that it had received notification of issue of US Patent No. 6426067 from the United States Patent and Trademark Office. The patent is exclusively licensed by the Biomolecular Research Institute Limited to Starpharma Limited, a wholly-owned subsidiary of Starpharma Pooled Development Limited. The inventors named on the patent, Dr Barry Matthews and Dr George Holan, are both now employed by Starpharma Limited. The granting of this patent titled "Angiogenic Inhibitory Compounds" provides Starpharma Limited with broad patent rights related to dendrimer-based products that inhibit angiogenesis (blood vessel growth), a key process in cancer tumour growth and spread.

#### *Employee share options*

2,360,000 Executive and Employee Share Options, exercisable at 93.75 cents, are due to expire on 28 September 2002.

On 16 September 2002 the Company announced to the ASX that the Board would not recommend extending or otherwise amending the terms of these options.

On 21 July 2002 the Company accepted an application from Dr Donald Tomalia for 200,000 options to be granted under the Starpharma Pooled Development Limited Employee Share Option Plan (ASX code SPLAM).

### NOTE 22: RELATED PARTIES

#### *Directors*

The names of persons who were directors of Starpharma Pooled Development Limited at any time during the financial year are as follows: P M Colman, R Dobinson, L Gorr, P J Jenkins, R J D Oliver and J W Raff. All of these persons were also directors during the year ended 30 June 2001.

Details of directors' remuneration are set out in Note 18.

#### *Transactions of Directors and Director-related entities concerning shares or share options*

Aggregate numbers of shares of Starpharma Pooled Development Limited issued to and held directly, indirectly or beneficially by directors of the Company or the economic entity or their director-related entities at balance date:

	2002 NUMBER	2001 NUMBER
ACQUISITIONS		
Ordinary shares	55,000	1,396,371
Options over ordinary shares	-	-
DISPOSALS		
Ordinary shares	70,500	-
Options over ordinary shares	-	-
CURRENTLY HELD		
Ordinary shares	27,535,452	27,550,952
Options over ordinary shares	2,080,000	2,080,000

#### *Other transactions with Directors and Director-related Entities*

A director, Prof P M Colman is a Director of The Biomolecular Research Institute Limited, which provides some administrative services to the consolidated entity. All such dealings with the consolidated entity are in the ordinary course of business and on normal terms and conditions.

A director, Mr R Dobinson is a director of the company, TSL Group Limited which renders consulting services to the consolidated entity. All such dealings with the consolidated entity are in the ordinary course of business and on normal terms and conditions.



## Notes to the Financial Statements cont.

Aggregate amounts of each of the above types of transactions with Directors and their Director-related entities are:

	CONSOLIDATED		PARENT ENTITY	
	2002	2001	2002	2001
	\$	\$	\$	\$
Contract research and research management services	-	273,208	-	-
Administrative Services	90,950	-	-	-
Consulting services	7,205	9,000	-	9,000
Legal fees	-	22,172	-	18,809

A director of the controlled subsidiary Dendritic Nanotechnologies Limited, Dr. Donald Tomalia, has provided consulting services to the consolidated entity during the year ended 30 June 2002. In addition, Donald Tomalia entered into intellectual property license deeds with DNT on 21 June 2002 under which DNT has obtained a licence to exploit the rights to 33 patent families involving 182 granted patents worldwide, related to dendrimers and dendritic polymers. In consideration for the acquisition of this right, Donald Tomalia received a lump sum payment of \$US100,000 on 21 June 2002 and will receive royalty payments of \$US10,833 per month for so long as the agreement, at the parties discretion, remains in force. The future commitment in relation to royalty payments is disclosed in note 16. Donald Tomalia and Jan Tomalia also jointly subscribed for 1,224,013 shares in DNT paying a total aggregate issue price of \$US84,212 for the shares acquired. All such dealings with the consolidated entity are in the ordinary course of business and on normal terms and conditions.

	CONSOLIDATED	
	2002	2001
	\$	\$
Consulting fees	168,932	-
IP licence charges	177,399	-

Apart from the above no director has entered into a material contract with the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year end.

### **Wholly owned group**

The wholly-owned group consists of Starpharma Pooled Development Limited and its wholly-owned controlled entities, Angiostar Limited, Starpharma Limited, Viralstar Limited and Preclin Pty Limited. Ownership interests in these controlled entities are set out in note 17.

Transactions between Starpharma Pooled Development Limited and other entities in the wholly-owned group during the year 30 June 2002 consisted of:

- loans advanced by Starpharma Pooled Development Limited;
- loans repaid to Starpharma Pooled Development Limited.

The above transactions were made on normal commercial terms and conditions. However, there are no fixed terms for the repayment of principle on loans advanced by Starpharma Pooled Development Limited.



## Notes to the Financial Statements cont.

The aggregate amount receivable from entities in the wholly-owned group at balance date is \$39,872.  
The aggregate amount receivable from other controlled entities in the group at balance date is \$49,240.

### **Controlling entity**

The ultimate parent entity in the wholly owned group is Starpharma Pooled Development Limited.

### **NOTE 23: FINANCIAL INSTRUMENTS**

#### **(a) Credit risk exposures**

The credit risk on the financial assets (limited to interest receivable) of the Company and consolidated entity which have been recognised on the balance sheet is generally the carrying amount of those financial assets net of any provisions where raised.

#### **(b) Interest rate risk**

The Company's and consolidated entity's exposure to interest rate risk is limited to that exposure which arises from the holding of cash balances and bills of exchange. Interest is earned on cash balances at the prevailing floating rate, which at 30 June 2002 was between 3% and 4.4% (2001: 3%) and on bills of exchange at 4.77% (2001: 4.98%). Cash balances are at call and bills of exchange have a maturity of no more than 60 days. All other financial assets and liabilities are non interest bearing.

#### **(c) Carrying amounts and net fair values of financial asset and liabilities**

The Company's and the consolidated entity's balance sheet reflect net assets. All balances stated in these balance sheets are, respectively, considered to form part of the Company's and the consolidated entity's net financial assets and liabilities with the exception of property, plant and equipment assets, other receivables, employee entitlement liabilities and investments in subsidiary companies (where included therein).

The carrying value of financial assets and liabilities as stated in the Company's and consolidated entity's balance sheets is equivalent to the net fair value of those financial assets and liabilities.

### **NOTE 24: SEGMENT INFORMATION**

The consolidated entity operates in the following business segments:

- Virology – development and commercialisation of dendrimers for prevention and treatment of virus diseases, particularly sexually transmitted diseases.
- Angiogenesis – development and commercialisation of dendrimers that inhibit angiogenesis.
- Other Pharmaceuticals – development of dendrimers with novel pharmaceutical activity.
- Dendritic Nanotechnologies Limited – development and commercialisation of dendrimers and dendritic polymer compounds with applications including pharmaceutical, drug delivery and other potential applications across a broad range of industry sectors.

Although the consolidated entity's business segments are managed from Australia, they operate in two main geographical locations – Australia and United States of America. Dendritic Nanotechnologies Limited has its operations in the USA and all other operations of the consolidated entity operate in Australia.



## Notes to the Financial Statements cont.

### Primary Basis – Business Segments

	VIROLOGY	ANGIOGENESIS	OTHER PHARMACEUTICALS	DENDRITIC NANOTECHNOLOGIES LIMITED	UNALLOCATED	CONSOLIDATED TOTAL
<b>REVENUE</b>						
External Revenue	-	383,646	-	1,057	943,915	1,328,618
Total Segment Revenue	-	383,646	-	1,057	943,915	1,328,618
<b>SEGMENT RESULT</b>						
Profit/(Loss) from Ordinary Activities before Income Tax	(4,104,037)	(1,415,488)	(1,232,156)	(1,089,255)	(118,353)	(7,959,289)
<b>DEPRECIATION &amp; AMORTISATION</b>						
Depreciation	58,618	58,618	14,655	26,827	14,654	173,372
<b>LIABILITIES</b>						
Total Segment Liabilities	-	-	-	66,906	1,284,050	1,350,956
<b>ASSETS</b>						
Total Segment Assets	531,562	885,081	737,252	637,740	16,067,798	18,859,433
<b>SEGMENT ASSETS ACQUIRED DURING THE REPORTING PERIOD</b>						
Property, Plant & Equipment	259,880	259,880	64,969	235,014	64,970	884,713

### NOTE 24: SEGMENT INFORMATION (CONTINUED)

#### Secondary Basis – Geographic Segments

	AUSTRALIA	USA	CONSOLIDATED TOTAL
<b>REVENUE</b>			
External Revenue	1,327,561	1,057	1,328,618
<b>SEGMENT RESULT</b>			
Profit/(Loss) from Ordinary Activities before Income Tax	(6,870,034)	(1,089,255)	(7,959,289)
<b>ASSETS</b>			
Total Segment Assets	18,221,693	637,740	18,859,433
<b>SEGMENT ASSETS ACQUIRED DURING THE REPORTING PERIOD</b>			
Property, Plant & Equipment	649,699	235,014	884,713



## Notes to the Financial Statements cont.

### Segment Information for Year Ending 30 June 2001

A revised version of AASB 1005 was first applicable for reporting periods commencing on or after 1 July 2001. The segment disclosure above for the year ended 30 June 2002 has been prepared in accordance with the requirements of that standard however directors have assessed that it is impracticable to restate segment information for the year ended 30 June 2001 into a comparable disclosure format. In respect to the year ended 30 June 2001, the consolidated entity operated in the pharmaceutical research and development industry in the business segments of virology, angiogenesis and other pharmaceuticals. These operations were conducted solely within the one geographical segment, namely Australia.

### NOTE 25: EMPLOYEE ENTITLEMENTS

#### (a) Employee entitlement liabilities

	CONSOLIDATED		PARENT ENTITY	
	2002 \$	2001 \$	2002 \$	2001 \$
Provision for employee entitlements current (Note 11)	178,365	64,868	-	-
	2002 NUMBER	2001 NUMBER	2002 NUMBER	2001 NUMBER
EMPLOYEE NUMBERS				
Number of employees at the reporting date	32	20	-	-

#### (b) Employee Option Plans

##### (i) Starpharma Pooled Development Limited Executive and Employee Option Plan

The establishment of the Starpharma Pooled Development Limited Executive and Employee Option Plan was approved by members at the annual general meeting held on 25 November 1999.

Under the plan, directors of the parent entity may from time to time determine that an eligible person is entitled to participate in the plan and will determine the number of employee options which may be granted to that person or any associate of that person. In making these determinations the directors are required to have regard to the person's

- length of service with the consolidated entity;
- record of employment with the consolidated entity;
- potential contribution to the future growth of the consolidated entity; and

to any other matters which tend to warrant the person's participation in the plan.

Under the plan, eligible persons include employees of the consolidated entity, including directors and consultants acting in management roles.

A total of 590,000 options were issued under the plan to 7 employees. Subsequent to the 4 for 1 share subdivision on 6 April 2000, the number of options on issue was adjusted on a consistent basis, resulting in 2,360,000 options on issue. The options were issued for no consideration and were capable of being exercised no earlier than 1 February 2002. Following the share subdivision, the exercise price of the options was reduced from \$3.75 to \$0.9375.

At 30 June 2002 the total number of unissued shares under these options is 2,360,000. The market selling price per ordinary share at 30 June 2002 was \$0.60.



## Notes to the Financial Statements cont.

(ii) *Starpharma Pooled Development Limited Employee Share Option Plan*

At the Annual General Meeting held on 16th November 2000 members approved the introduction of a new Starpharma Employee Share Option Plan, which was drafted to take into account amendments to the then Corporations Law and the ASX Listing Rules.

A total of 300,000 options were granted under the plan on the 7 February 2001. These options were issued for no consideration and are capable of being exercised no earlier than 1 January 2003.

A total of 240,000 options were granted under the plan on the 11 April 2002. These options were issued for no consideration and are capable of being exercised no earlier than 12 April 2004.

At 30 June 2002 the total number of unissued shares under these options is 540,000. The market selling price per ordinary share at 30 June 2002 was \$0.60.

### NOTE 26: EARNINGS PER SHARE

	CONSOLIDATED	
	2002 CENTS	2001 CENTS
Basic Earnings/(Loss) per share	(8.90)	(4.74)
Diluted Earnings/(Loss) per Share	(8.60)	(4.59)
	2002 NUMBER	2001 NUMBER
<b><i>Weighted average number of shares used as the denominator</i></b>		
Weighted average number of shares used as the denominator in calculating basic earnings per share	88,900,000	82,462,739

***Potential ordinary shares not considered dilutive:***

As at the 30 June, the Company had on issue:

- 2,360,000 options over unissued capital exercisable on or before the 28 September 2002 at the price of 93.75 cents per ordinary share. These options are not considered dilutive.
- 300,000 options over unissued capital exercisable on or before the 31 January 2005 at the price of 93.75 cents per ordinary share. These options are not considered dilutive.
- 240,000 options over unissued capital exercisable on or before the 11 April 2007 at the price of 93.75 cents per ordinary share. These options are not considered dilutive.



## Directors' Declaration

The Directors declare that the financial statements and notes set out on pages 26 to 44:

- (a) Comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) Give a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2002 and of their performance, as represented by the results of their operation and their cash flows, for the financial year ended on that date.

In the Director's opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; 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.

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

**R J D Oliver**  
DIRECTOR

30 September, 2002  
Melbourne

## INDEPENDENT AUDIT REPORT TO THE MEMBERS OF STARPHARMA POOLED DEVELOPMENT LIMITED

### *Audit opinion*

In our opinion, the financial report, set out on pages 26 to 45:

- presents a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Starpharma Pooled Development Limited and the Starpharma Group (defined below) as at 30 June 2002 and of their performance for the year ended on that date
- is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory professional reporting requirements in Australia, and the Corporations Regulations 2001.

This opinion must be read in conjunction with the following explanation of the scope and summary of our role as auditor.

### *Scope and summary of our role*

#### *The financial report – responsibility and content*

The preparation of the financial report for the year ended 30 June 2002 is the responsibility of the directors of Starpharma Pooled Development Limited. It includes the financial statements for Starpharma Pooled Development Limited (the Company) and for the Starpharma Group (the Group), which incorporates Starpharma Pooled Development Limited and the entities it controlled during the year ended 30 June 2002.

#### *The auditor's role and work*

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company. Our role was to conduct the audit in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our audit did not involve an analysis of the prudence of business decisions made by the directors or management.

In conducting the audit, we carried out a number of procedures to assess whether in all material respects the financial report presents fairly a view in accordance with the Corporations Act 2001, Accounting Standards and other mandatory professional reporting requirements in Australia, and the Corporations Regulations 2001, which is consistent with our understanding of the Company's and the Group's financial position, and their performance as represented by the results of their operations and cash flows.

The procedures included:

- selecting and examining evidence, on a test basis, to support amounts and disclosures in the financial report. This included testing, as required by auditing standards, certain internal controls, transactions and individual items. We did not examine every item of available evidence
- evaluating the accounting policies applied and significant accounting estimates made by the directors in their preparation of the financial report
- obtaining written confirmation regarding material representations made to us in connection with the audit
- reviewing the overall presentation of information in the financial report.

Our audit opinion was formed on the basis of these procedures.

### *Independence*

As auditor, we are required to be independent of the Group and free of interests which could be incompatible with integrity and objectivity. In respect of this engagement, we followed the independence requirements set out by The Institute of Chartered Accountants in Australia, the Corporations Act 2001 and the Auditing and Assurance Standards Board.

In addition to our statutory audit work, we were engaged to undertake other services for the Group. In our opinion the provision of these services has not impaired our independence.

PRICEWATERHOUSECOOPERS

PARTNER

Melbourne, 30 September 2002

Liability is limited by the Accountant's Scheme under the Professional Standards Act 1994 (NSW)





## Shareholder Information

Supplementary information as required by Australian Stock Exchange Listing Rules.

### A. Distribution of equity shareholders

Analysis of numbers of equity security holders by size of holding as at 18th September 2002

	CLASS OF EQUITY SECURITY	
	SHARES	OPTIONS
1 – 1,000	160	
1,001 - 5,000	748	
5,001 - 10,000	539	
10,001 - 100,000	663	11
100,001 and over	73	9
	<b>2,183</b>	<b>20</b>

As at 18th September 2002 there were 168 holders of less than a marketable parcel of ordinary shares.

### B. Equity security holders

*Twenty largest security holders*

Top 20 shareholders as at 18th September 2002:

	NUMBER HELD	ORDINARY SHARES PERCENTAGE OF ISSUED SHARES
Peter Malcolm Colman	5,982,482	6.73
Arran Bay Pty Ltd	4,357,600	4.90
Gilridge Pty Ltd	4,000,000	4.50
Mr John William Raff	3,602,581	4.05
Espasia Pty Ltd	3,505,289	3.94
Davambros Pty Ltd <The Davambros A/C>	2,420,250	2.72
UBS Warburg Private Clients Nominees Pty Ltd	2,134,000	2.40
National Nominees Ltd	2,128,832	2.39
Ms Ruth Raie Holan	2,051,045	2.31
Mr Barry Matthews	2,019,045	2.27
Queensland Investment Corporation	2,000,000	2.25
Ms Natalie Jane Le Sueur	1,200,000	1.35
Applecross Secretarial Services Pty Ltd <L Gorr Family A/C>	1,077,000	1.21
Dapali Pty Ltd	1,070,000	1.20
Mr Hugo Frijlink	1,048,069	1.18
HSBC Custody Nominees (Australia) Limited	1,033,243	1.16
Ms Sheila Gail Jenkins	880,000	0.99
APV Nominees Pty Ltd	800,000	0.90
Jagen Pty Ltd	800,000	0.90
Equity Trustees Limited <JM Asset Management A/C>	625,000	0.70
	<b>42,734,436</b>	<b>48.05</b>



## Shareholder Information cont.

### *Unquoted equity securities*

	NUMBER ON ISSUE	NUMBER OF HOLDERS
Restricted shares		
The restriction on these shares will cease on 28 September 2002	33,834,942	28
Options issued under the Starpharma Pooled Development Limited Executive and Employee Share Option Plan (ASX code SPLAK)	2,360,000	7
Options issued under the Starpharma Pooled Development Limited Employee Share Option Plan (ASX code SPLAM)	540,000	13

### **C. Substantial holders**

The following information is extracted from the Company's register of substantial shareholders as at 18th September 2002::

	NUMBER HELD	PERCENTAGE
Ordinary shares		
Peter M Colman	5982482	6.73%
Ross Dobinson	4705289	5.29%
Leon Gorr	5872100	6.61%
Richard J D Oliver	4768000	5.36%

### **D. Voting rights**

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

#### *(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.





**Starpharma Pooled Development Limited**

ABN 20 078 532 180

Level 6, Baker Heart Research Building

Commercial Road, Prahran VIC 3181 Australia

T +613 8532 2700 F +613 9510 5955 W [www.starpharma.com](http://www.starpharma.com)