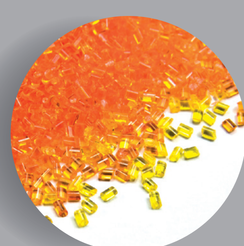
starpharma

Annual Report 2011



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

US $5 bn

Starpharma has shown improvements in the formulation of agrochemical, glyphosate (Round Up®) which has annual sales of US$5bn

US $3 bn

Starpharma's drug delivery candidate, docetaxel is an important chemo-therapy drug used to treat breast cancer, lung cancer and prostate cancer, and last year generated sales of approx. US$3bn

US $500 m

Japanese condom market is an estimated US$500m in condom sales annually. Okamoto has approximately 60% of the market

Starpharma Holdings Limited
ABN 20 078 532 180

US $1 bn

Starpharma estimates the addressable global market for the treatment and prevention of recurrence of BV is in excess of US$1bn

30%

BV is the most common vaginal infection worldwide, affecting an estimated 30% of the adult female population in the US

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Highlights 2010-2011

- **VivaGel® demonstrates efficacy in the treatment of bacterial vaginosis**
  Major Phase 2 clinical trial provides strong evidence for VivaGel®'s efficacy in treating bacterial vaginosis (BV); 74% of patients were cured of BV compared with just 22% in a placebo group

- **VivaGel®-coated condom rights reassigned to Ansell**
  Reckitt Benckiser agreement terminated - Ansell new VivaGel®-coated condom commercial partner excluding Japan and a number of Asian markets

- **Japanese VivaGel®-coated condom deal secures access to the world's second largest condom market**
  Agreement with Okamoto, Japan's largest condom manufacturer with 60% share of the Japanese market - estimated at US$500 million

- **Docetaxel selected as a candidate for internal drug delivery program**
  Reformulation of the important chemotherapy drug docetaxel showed a 2,000 to 8,000-fold improvement in water solubility, potentially allowing for the development of a novel, improved formulation

- **Lilly relationship expanded with new co-development program**
  Additional drug delivery program expands on two previous agreements between the companies

- **Priostar® dendrimers result in improved performance of glyphosate (Roundup®)**
  Characteristics of major agrochemicals including glyphosate (Roundup®) improved when reformulated with dendrimers - potential to tap into US$40B agrochemical market

- **Agrochemical program receives Government funding**
  Starpharma awarded $250,000 funding from the Victorian Government's Small Technologies Industry Uptake Program for internal agrochemical program

- **Starpharma ranked in top ASX-listed biotechnology companies**
  Market capitalisation increased substantially in the year following strong domestic and international investment support

Contents

Chairman's Letter

Dear Shareholders,

On behalf of the Board and management of Starpharma I am pleased to present the 2010-2011 annual report for your review.

Over the last 12 months Starpharma has emerged as one of the clear leaders in the biotech sector with a maturing portfolio that has expanded in number of products and advanced in clinical progress. The company has demonstrated its ability to maximise the value of the powerful platform technology it possesses through successful application to pharmaceuticals, drug delivery and diagnostics, agrochemicals and a wide array of other products.

In our VivaGel® portfolio, a Phase 2 clinical trial provided strong evidence for VivaGel®'s efficacy in treating bacterial vaginosis. We also signed an agreement with Okamoto Industries for the VivaGel®-coated condom securing access to the major Japanese market, second only to the US market.

Starpharma's achievements have translated on the share market and resonated with investors both locally and internationally. Throughout the year, Starpharma's market capitalisation has increased substantially and the Company now sits in the leading group of biotech companies by market capitalisation on the Australian Securities Exchange. The Company has welcomed new institutional investors from Europe, Asia and Australia. The diversity of our shareholders places us in good stead to trade well through periods of market volatility and our cash reserves put us in a strong position to progress our internal development programs as planned.

Our business model is one that supports our ability to progress multiple products. Through commercial partners including Ansell, Okamoto, Lilly, Elanco, Stiefel, Siemens Healthcare, Merck, Aldrich and Qiagen we benefit from co-development and funding of our products and access to a world class network of people with the skills to complement our team in commercialising our portfolio. Since the end of the reporting period but of significance we signed a commercial agreement for the VivaGel®-coated condom with flagship Australian company Ansell, replacing the deal we had with Reckitt Benckiser. Terminating the agreement with RB due to non-performance of the contract was a difficult decision for the Board and management but one we are confident was in the best interest of the successful commercialisation of this product.

This year we have also added several internal programs that are being developed in parallel with our partnered programs. These include a project involving a reformulation of the blockbuster chemotherapeutic docetaxel.

In agrochemicals we have reformulated the well-known herbicide in Roundup® (glysophate) using dendrimers to improve its performance, thereby reducing the amount of herbicide required. These exciting initial results provide a foundation for several opportunities in this sector.

In June, founding Director Dr John Raff retired from the Board after 14 years. As an early steward of the business, he established much of the foundation of what is being achieved today and we thank him for his contribution. John remains a strong supporter of the Company.

Finally, I thank CEO Jackie Fairley and all Starpharma staff for their ongoing dedication and commitment to the Company. Starpharma continues to mature as a strong leader in the Australian biotechnology sector. I would also like to thank our shareholders, both existing and new for their continued support of Starpharma and we look forward to another exciting and successful year ahead.

Peter T Bartels, *AO*
Chairman

CEO's Report

Over the past 12 months Starpharma has demonstrated the value and enormous versatility of its platform technology. The company's programs, both internal and with its partners, are in four key areas: VivaGel®, drug delivery, agrochemical and other, which includes cosmetics, water treatment, diagnostics, reagents and industrial applications.

Of major significance, the company delivered very strong clinical results supporting VivaGel®'s efficacy in treating bacterial vaginosis. In addition, the Company's research teams have made exciting progress exploring the value of its proprietary dendrimers in the areas of drug delivery and agrochemicals.

Starpharma's partnerships with leading global companies continue to help fund and accelerate its development programs as well as enhance the Company's commercial positioning as its products approach the market. In parallel, Starpharma has added a number of new and exciting internal development programs with the potential to deliver significant value to shareholders in the future.

In 2010/11 Starpharma maintained momentum with its lead products VivaGel®, and the Company expanded its global reach through a new commercial partnership with Okamoto Industries for the VivaGel®-coated condom in Japan. In August 2011 we signed an agreement with Ansell for the VivaGel®-coated condom which covers marketing rights to the coated condom in countries excluding Japan and a number of Asian markets. This replaced the agreement we had with Reckitt Benckiser which was terminated due to the failure to achieve satisfactory progress in relation to certain commercialisation milestones.

The strategic diversification of Starpharma's technology continues to yield excellent results, and the market has responded positively to its ongoing success. The Company's delivery of major milestones and strong share price performance places Starpharma in the top tier of Australian biotech companies. With a number of achievements to relate, I am pleased to now report in detail on the Company's operations for the 2010/2011 financial year.

VivaGel® product range

VivaGel® for the treatment and prevention of bacterial vaginosis

In May 2011 Starpharma announced the very encouraging results from its Phase 2 clinical trial assessing the efficacy of VivaGel® in treating bacterial vaginosis (BV). This was an important milestone for the Company and its shareholders.

The evidence from this trial was significant and supportive: following completion of treatment, 74% of patients were cured of BV compared with just 22% in a placebo group. Two to three weeks after the treatment concluded, the cure rate was 46% compared to just 12% in the placebo group. Unpleasant vaginal odour was cured in 78% of the VivaGel® treated patients. Finally, in assessments of patients' perceptions of VivaGel® and its use, 83% of patients using a VivaGel® formulation of 1% active ingredient (SPL7013) were extremely satisfied, very satisfied or satisfied with the product, compared with just 35% of patients using the placebo.

The high BV cure rates seen in the completed Phase 2 trial, combined with the high tolerability and patient satisfaction ratings also give the company further confidence in the additional indication for VivaGel®: prevention of recurrence through extended usage. Recurrence is a very common problem with BV and existing treatments have a number of undesirable characteristics. Furthermore, as typically these are conventional antibiotics they are considered unsuitable for long term use. The Company will be commencing a second BV trial for VivaGel® in Q3 2011 to determine the efficacy of VivaGel® for the prevention of BV recurrence, opening up a whole new area of application for the product.

The recent Phase 2 BV trial results were also used to support new patent filing which will extend protection of VivaGel® to at least 2032. Starpharma is now in discussions with regulatory agencies to commence a Phase 3 registration trial for VivaGel® in the next six months.

Market opportunity
The US market remains the initial target for VivaGel® as a treatment for BV. This is a major market: More than 21 million women are estimated to be currently infected with BV in the US, with an infection rate of 51% reported in certain demographics. One third of US women will have BV during their lives.

Current antibiotic treatments for BV have significant disadvantages including: low cure rates (and a high rate of recurrence); adverse effects of treatment occurring such as gastrointestinal side effects and adverse reactions with alcohol; and incompatibility with condoms (see Table 1 overleaf).

The lack of significant competition and high prevalence of infection, not only in the US market but internationally, indicates a market worth in excess of US$1 billion for a long term prevention of BV recurrence product. As a leading developer in this space, Starpharma's positioning as a company able to rapidly seize this market opportunity has continued to strengthen in the last year, given the growing evidence supporting the company's unique platform technology and the strong partnerships with major industry players.

Further link between HIV and BV identified
In July 2011, independent international research found that men were three times more likely to contract HIV from their female partners if the women also had BV in the three months before the men became infected. These findings were reported at the International HIV/AIDS Conference in Rome by researchers from the University of California. This study builds on the growing evidence to prove the reported link between HIV and BV previously observed in women with BV, but is the first to demonstrate an association between BV in HIV infected female partners and the risk of HIV transmission to their male partners.

Table 1: Advantages of VivaGel® over existing treatments

Advantages	VivaGel®	Metronidazole Tablets	Metronidazole Gel, 0.75%	Clindamycin Cream, 2%
Active Ingredient Not Carcinogenic†	✓	✗	✗	?
Compatible with Condoms	✓	✓	✓	✗
No Absorption into blood stream	✓	✗	✗	✗
Sexual Intercourse permitted during use	✓	✓	✗	✗
Compatible with Alcohol Consumption	✓	✗	✗	✓
No Other Significant Warnings / Side Effects‡	✓	✗	✗	✗
Antiviral Activity	✓	✗	✗	✗

† Metronidazole has been shown to be carcinogenic in mice and rats. Clindamycin has not been tested for carcinogenicity in long-term studies in animals but is not genotoxic or mutagenic in other nonclinical studies.

‡ Central and peripheral nervous system effects, such as convulsive seizures and peripheral neuropathy, have been reported in patients treated with metronidazole. Use of clindamycin phosphate is associated with Clostridium difficile-Associated Diarrhoea.

Sources: Flagyl® Oral Tablet (metronidazole) Label Information, LAB-0162-5.0, revised August 2010; Vandazole® Vaginal Gel (metronidazole) Label Information, Rev. C 12/2010; Clindesse® Vaginal Cream (clindamycin) Label Information, Revised 12/2010.

VivaGel® for the prevention of transmission of sexually transmitted infections (STIs)

The development of VivaGel® as a stand-alone product continues. The widespread prevalence of sexually transmitted infections (STIs) such as genital herpes (HSV), genital warts (HPV), and HIV indicates a high market value for an efficacious, broad-spectrum, and consumer-friendly product. Consumer demand has been identified as strong, with studies showing that 30-40% of female college students in the US would buy a product of this type.

In particular, VivaGel® has demonstrated broad-spectrum action against a range of viral agents. This includes the various viral strains which cause cervical cancer and genital warts, as well as genital herpes, against which VivaGel® remains the only microbicide in development.

Market opportunity

More than 50 million Americans are currently infected with genital herpes. This includes approximately 26% of the female population, which is estimated to rise to 50% by 2025 at current rates of infection.

Starpharma's five human clinical trials have displayed an excellent safety profile and strong antiviral activity.

VivaGel®-coated condom

In May 2011 Starpharma entered a commercial agreement with Okamoto Industries Inc (TSE: JP3192800005), granting Okamoto marketing rights to the VivaGel®-coated condom in Japan in exchange for royalty and milestone payments made to Starpharma. In addition, Okamoto will undertake the Japanese registration and launch process.

Market opportunity

Okamoto has a 60% share of the estimated US$500 million condom market in Japan (see Table 2), the second largest in the world. In addition to its leading position in Japan, Okamoto also holds strong positions in several other Asian markets including China, Korea, Malaysia, Taiwan and Singapore.

Table 2: Japanese condom market

Condom shipments by major company in Japan (2005)[i]

Company	Market Share
Okamoto Industries	60%
Sagami Rubber Industries	20%
Fuji Latex Co	16%
Others	4%
Total	100%

While outside the reporting timeframe of this report it is of significance to the commercialistion of the VivaGel®-coated condom that we include details of an agreement struck with Ansell in August 2011 which covers marketing rights to the coated condom in countries excluding Japan and a number of Asian markets.

Under the agreement Ansell will pay Starpharma royalties on sales of VivaGel®-coated condom and will support registration and other commercialisation costs. Ansell is also responsible for manufacturing the VivaGel®-coated condom and marketing of the product, which will include the VivaGel® brand together with the respective Ansell brand.

This commercial arrangement replaced the agreement we had with Reckitt Benckiser (formerly with SSL International) which was terminated due to the failure to achieve satisfactory progress in relation to certain commercialisation milestones for the VivaGel®-coated condom.

Securing revenue streams as well as forming vital distribution networks with these established major players represents a key building block in the value structure of the VivaGel®-coated condom. The strong partnered brands, secure supply and global market coverage that Starpharma's partners provide, all act to maximise the anticipated revenues from this product.

[i] Market Data Bank (MDB) Report issued February 2009, Condoms: A Global Strategic Business Report (2005, 2008) and Industry Data

Drug delivery

Building concurrent revenue streams through diversifying the applications for Starpharma's dendrimer technology is core to Starpharma's commercial strategy. In June 2011 Starpharma announced preliminary results from the drug delivery program, which aims to improve the delivery of existing drugs through conjugation with customised dendrimers.
Success in this area has a high potential value for Starpharma. The performance profile of many drugs could be improved with alteration of key characteristics such as solubility, toxicity and half-life, especially in the case of cancer drugs. Many of the most profitable cancer drugs (see Table 3) have severe side-effects which limit their use and represent an opportunity for improvement. One example is docetaxel, widely used as a chemotherapy treatment for some types of lung, breast and prostate cancer. Docetaxel is marketed worldwide under the name Taxotere by Sanofi-Aventis with sales of US$3.1 billion in 2010.

Table 3: Major anti-cancer drugs

Trade name	Active ingredient	Market value US$M	Manufacturer
Taxotere®	Docetaxel	3,000	Sanofi Aventis
Eloxatin®	Oxaliplatin	1,484	Sanofi Aventis
Alimta®	Pemetrexed	1,306	Lilly
Gemzar®	Gemcitabine	1,107	Lilly
Camptosar®	Irinotecan	329	Pfizer
Vidaza®	Azacitidine	299	Celgene

Starpharma's reformulation of docetaxel with dendrimers resulted in a 2,000 to 8,000-fold improvement in water solubility. This enhanced water solubility could potentially allow the development of a docetaxel formulation which would not require pre-medication with high doses of cortisone and would avoid the need for inclusion of formulation components thought to cause the severe allergic reactions and fluid retention experienced by some patients.

Following the results from this work, Starpharma will advance pre-clinical studies of dendrimer-docetaxel formulations as a lead candidate in the drug delivery program. Starpharma has also filed a new patent application with the United States Patent and Trademark Office, incorporating recent docetaxel data. This patent builds on Starpharma's already extensive patent filings and captures the potential uses of a class of dendrimers in a range of applications related to drug delivery, laying the groundwork for securing further intellectual property in this area.

Precedent in the nano-pharmaceutical space may be found in the example of American nano-pharmaceutical developer Abraxis, who developed Abraxane®, a highly successful water-soluble formulation of paclitaxel (a molecule very similar to docetaxel). Abraxis was acquired in 2010 for US$2.9 billion by Celgene, displaying the market's valuation of major improvements on existing drugs.

Agrochemicals

Another industry Starpharma has selected as a key target for value-added product development is the US$40 billion agricultural chemical industry, which has both a large market size and considerable potential for product enhancement.

Agrochemicals represent a significant cost to farmers. More effective chemical formulations could reduce the expense of a crop treatment cycle and the need for reapplication, potentially improving the environmental profile of such products.
In July 2011 Starpharma announced encouraging early-stage success with applying its Priostar® dendrimer technology to the improvement of a number of globally significant agrochemicals including glyphosate (Roundup®) which has annual sales in excess of US$5 billion. In addition to glyphosate, the Company's research has also included the major insecticide imidacloprid and the herbicide trifluralin which have annual sales of US$1 billion and US$300 million respectively.

The addition of Starpharma's patented dendrimers to the glyphosate solution resulted in an increase in the brownout, or rate of vegetation dying off. This suggests that the dendrimer was significantly increasing the activity of the glyphosate.

Table 4: Major agrochemicals

Trade name	Active ingredient	Activity	Market value US$M	Manufacturer
Roundup®	Glyphosate	Herbicide	5,000	Monsanto
Confidor®	Imidacloprid	Insecticide	1,000	Bayer CropScience
Regent®	Fipronil	Insecticide	420	BASF
Fastac®	Alpha-cypermethrin	Insecticide	400	FMC
Gramoxone®	Paraquat	Herbicide	380	Syngenta
Orthene®	Acephate	Insecticide	360	Sumitomo, Arysta
Stomp®	Pendimethalin	Herbicide	350	BASF
Treflan™	Trifluralin	Herbicide	300	Dow

Starpharma's key patents in this area have already been allowed or granted by the US and other patent offices for broad protection of Priostar® dendrimer technology, relevant to both agrochemical and industrial applications. Additionally Starpharma has filed for protection for specific agrochemical applications, which if granted would provide patent coverage to 2029.

In March 2011 Starpharma announced that its agrochemicals program had received $250,000 additional funding support from the Victorian Government's Small Technologies Industry Uptake Program (STIUP). In addition, Starpharma also has partnered programs with a growing number of leading agrochemical companies.

Other applications

The optionality of Starpharma's platform technology has allowed the company to develop multiple products across diverse industries and with a growing number of commercial partners:

- **Diagnostics and laboratory reagents**: in collaboration with Siemens, Sigma Aldrich, Merck, and Qiagen.
- **Animal health**: in collaboration with Elanco.
- **Cosmetics:** in collaboration with unnamed, in-confidence, partners.

Starpharma's primary product areas

Product / application	Indication	Partnering status	Commercial strategy	Market opportunity
VivaGel® for bacterial vaginosis (BV)	Treatment	Internal	Licence at late stage	US$300-$350M
	Prevention of recurrence	Internal	Licence at late stage	Estimated >US$1B
VivaGel® for STIs	Prevention of HIV / HSV / HPV	Internal	Licence at late stage	US$3-6B
VivaGel®-coated condom	Antiviral coating	Partnered: Ansell & Okomoto Industries	Partnered	US$1.1-1.7B
Drug delivery	Docetaxel (chemotherapeutic)	Internal Program	Licence at late stage	US$3B
	Multiple others	Partnered: Lilly, GSK, Elanco, undisclosed	Co-development arrangements in place	Undisclosed
Agrochemical	Glyphosate	Internal Program	Licence at late stage	US$5B
	Multiple others	Partnered: multibillion US-based partner, undisclosed	Co-development payments, royalty on sales	US$40B

Overview of financial results

4 Year Financial Summary — **Year Ended 30 June**

	2011 $M	2010 $M	2009 $M	2008 $M
Royalty, customer and licence revenue	**1.1**	1.4	2.0	1.4
Grant income	**1.2**	3.8	7.7	8.2
Interest revenue	**1.0**	0.7	0.1	0.3
Total revenue & income	**3.3**	5.9	9.8	9.9
Expenditure	**(12.2)**	(12.3)	(14.1)	(18.1)
Income tax credit	**-**	-	0.2	0.7
Net loss after tax	**(8.9)**	(6.4)	(4.1)	(7.5)
Cash outflow before new capital (Cash Burn)	**(7.5)**	(3.9)	(2.9)	(6.1)
Cash Burn adjusted for exchange rate movements	**(6.7)**	(3.8)	(4.2)	(5.5)
New share capital net proceeds	**3.6**	15.1	7.0	3.5
Cash at end of year	**18.9**	22.8	11.6	7.5

For the period ended 30 June 2011, the key metric of net cash burn for the year was $3.9 million, with cash reserves at 30 June 2011 of $18.9 million (2010: $22.8 million). Starpharma reported a net loss after tax of $8.9 million (2010: $6.4 million) and experienced net cash outflows of $6.5 million from operations (2010: $3.6 million). A further $3.6 million of cash inflows in the current year was a result from proceeds on the exercise of options.

The results were consistent with the company's strategic plans and budget estimates. The increase in the reported net loss included expenditure for the successful phase 2 VivaGel® clinical trial for the treatment of bacterial vaginosis and on Starpharma's internal development programs for drug delivery and agrochemicals.

Total revenue and other income for the year was $3.3 million, a reduction of $2.6 million from the previous year, due to lower grant income from the US National Institutes of Health. Revenue from partners continues to be an important component in developing and commercialising the pipeline while minimising cash flows.

Cash at 30 June 2011

$18.9M

Net cash burn for 2011

$3.9M

Outlook

Financial year 2011/12 has been a highly productive year for Starpharma. The Company has successfully explored the options for the Company's core technology, producing a diverse range of promising commercial opportunities. In addition, the positive results received across our programs during the period have been very encouraging.

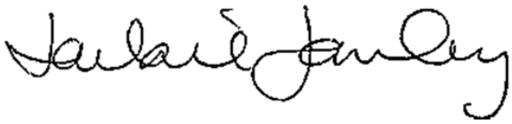
New commercial partnerships and strong ongoing relationships have furthered the potential reach of Starpharma's product portfolio, which itself has made major advances both in the clinic and commercially.

Market awareness of Starpharma continues to grow. Retail and institutional investment interest alike continues to flourish; strong liquidity, a diversifying investor register and a continual appreciation in share price bear this out. This year has seen increasing interest in the company from investors, not only in Australia but also in Asia and Europe. Starpharma has clearly outperformed the broader market and sector during the year, which has been noted by leading analysts that identified Starpharma as a strongly performing stock. Cash flows for the year reflect the investment in the VivaGel® clinical trial for the treatment of BV, which has delivered great value to the Company. In 2011/12, VivaGel® will now be advanced to Phase 3, the last and most important stage of trials before approval is given and sales can begin.

As Starpharma looks ahead to 2012 and beyond, we will continue to focus on driving our lead products through the final stages of development and registration while diversifying the underlying portfolio and building the value of our core technology. The multiple indications for VivaGel® are Starpharma's most advanced and well known work, but we anticipate that as our research programs progress we will build an increasing amount of value across a broadening range of applications for our dendrimer technology.

I would like to sincerely like to thank our staff who remain enthusiastic and firmly committed to ongoing product innovation and actively driving the commercialisation of our products.

Finally, to our long term investors we thank you for your enduring support and to our new investors welcome aboard to what is certainly an exciting period for Starpharma and those who will benefit from our products.



Jackie Fairley
CEO

Corporate and Social Responsibility

Starpharma is a world leader in the development of dendrimer products for pharmaceutical, life science and other applications, and aims to create value through the commercialisation of its proprietary products. In striving for this objective, Starpharma acknowledges its role within society and believes its success will deliver long term positive benefits to all stakeholders. Starpharma's corporate governance principles and code of conduct set the framework for how the company, management and employees are expected to conduct themselves: always ethically and responsibly.

Our People

The employees of Starpharma are critical for achieving business success. To ensure Starpharma remains a safe, healthy, and attractive workplace for our employees, Starpharma has established work place policies and practices. Policies assist to ensure employees have engaging and satisfying roles, receive periodic assessments and feedback on performance, provide ongoing training and career development, and ensure a balanced work and home life. Starpharma's Code of Conduct reflects the core values of the Company and sets out standards of behaviour in matters including equal employment opportunity and best practice in recruitment.

Employees are rewarded for their performance, dedication, and contribution to the results of Starpharma. Employees are recruited into and retained in positions based on merit. A balance of skills, expertise and opinion, as well as gender and diversity are viewed as important cultural elements within the collegiate team environment. The Board has adopted a Diversity Policy to provide a framework for Starpharma to achieve a number of diversity objectives, with an initial focus on gender.

Employee equity participation schemes are used to allow all staff to share in the business success of the Company and to assist in aligning the objectives of employees with those of shareholders.

Occupational health and safety is considered every employee's responsibility, with an active committee structure to eliminate, reduce or mitigate risks associated with Starpharma's activities. Occupational Health & Safety Committee members represent all sections of the workplace including management and employees.

The Community

The very nature of Starpharma products affords the opportunity of changing lives for the better. Through innovative research and development, Starpharma is creating products for needs which are currently unmet, either within the public health, medical, life sciences or other markets.

All of our pharmaceutical products and our clinical research activities comply with strict regulatory and ethical approval processes. These include the FDA in the United States and other regulatory bodies as applicable.

Our Partners

Starpharma has established important business and scientific partnerships with leading global companies, international scientific and medical research organisations and key governmental and non-governmental departments and institutions. These relationships offer critical analysis of research concepts from world experts in their field and provide the pathway for products to enter the market and change daily lives.

The Environment

The broad application of Starpharma's dendrimer research extends into projects that may assist the environment. Research in the fields of agrochemicals and water may improve existing products and reduce the negative impact of current practices on the environment. More effective chemical formulations for agrochemicals could reduce the frequency of application and potentially improve the environmental profile of such products. Early studies in combining the company's proprietary dendrimer technology with major agrochemicals indicate that improvements such as enhanced solubility, better adhesion to plants and modification of soil penetration properties are possible.

In conducting its research and operations Starpharma has processes in place to ensure that all wastes products (albeit relatively minor in volume) are disposed of strictly in accordance with relevant environment regulations.

Directors' Report

Your directors have pleasure in presenting this report on the consolidated entity (referred to hereafter as the group) consisting of Starpharma Holdings Limited and the entities it controlled at the end of, or during, the year ended 30 June 2011.

Directors

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

P T Bartels (Chairman)	P J Jenkins (Deputy Chairman)	J K Fairley (Chief Executive Officer)
R Dobinson	R A Hazleton	

J W Raff was a director and deputy chairman from the beginning of the financial year until his resignation on 17 June 2011.

Principal Activities

The principal activities of the group consist of development and commercialisation of dendrimer products for pharmaceutical, life-science and other applications. Activities within the group are directed towards the development of precisely defined nano-scale materials, with a particular focus on the development of its topical vaginal microbicide VivaGel® for the treatment and prevention of bacterial vaginosis, and prevention of genital herpes and HIV, and the application of dendrimers to drug delivery and other life science applications. More broadly, through partners the group is exploring dendrimer opportunities in materials science with applications in areas such as cosmetics, agrochemicals, coatings, adhesives and water. Products based on the group's dendrimer technology are on the market in the form of diagnostic elements and laboratory reagents.

Business Objective

The Company aims to create value for shareholders through the commercial exploitation of proprietary products based on its dendrimer technology in pharmaceutical, life science and other applications.

Dividends

No dividends were paid or declared during the period and no dividends are recommended in respect to the financial year ended 30 June 2011. (2010: Nil)

Review of Operations

Achievements and significant events during the 2011 financial year included:

July 2010 FDA clearance to commence Phase 2 BV Study

The US Food and Drug Administration (FDA) gave clearance for commencement of a phase 2 study to investigate VivaGel® for the treatment of bacterial vaginosis (BV).

VivaGel® is under investigation for both the short term treatment and longer term suppression of recurrence of BV in women, and this initial phase was to investigate the treatment of BV with a once daily for seven days treatment of VivaGel®. Findings of this study would guide further investigation of suppression of recurrence.

August 2010 Phase 2 BV Study Commences

The phase 2 study of VivaGel® for the treatment BV commenced following receipt of ethics approval.

The primary objective of the clinical program was to identify the efficacy and optimal dosing with three strengths (0.5%, 1% and 3%) being compared with a placebo gel. Subjects were assessed at the end of treatment and then two to three weeks after the end of treatment.

August 2010 VivaGel® Condom Patent Grant Extends Coverage

Starpharma announced the extension of the VivaGel® patent portfolio with the first grant of a patent specifically for the VivaGel®-coated condom.

The application was granted on 20 August 2010 by the Russian patent office. Starpharma has also filed this patent in major markets including the USA, Canada, Europe, China, India and Japan.

Both the VivaGel® coated condom and the VivaGel® standalone gel are already protected by a portfolio of granted VivaGel® patents in major markets, and this new patent family provides additional protection for the condom product, and also extends the duration of coverage in each market for which it is granted. In the case of this grant in Russia it provides coverage for the coated condom until at least 2026.

September 2010 Lilly Partnership Expanded

The signing of a collaborative research agreement with leading US pharmaceutical corporation Eli Lilly and Company was announced.

The new agreement related to a co-development program for one of Starpharma's dendrimer-drug conjugates. Under the agreement Lilly will receive an option on the conjugate, will pay research fees to Starpharma and will conduct studies in animal models to advance the compound.

This latest announcement followed on from two previous agreements between the companies. In February 2010, an agreement was announced for the application of Starpharma's dendrimer drug delivery technology to the enhancement of compounds in Lilly's human pharmaceutical portfolio, and in May 2009 an agreement was signed with Lilly's animal health division, Elanco, to develop new animal health products with enhanced properties.

March 2011 Agricultural Program Expanded through $250,000 Funding

Starpharma was awarded $250,000 funding to enhance agrochemicals using its Priostar® dendrimers.

The funding was provided under the Victorian Government's Small Technologies Industry Uptake Program (STIUP), to allow Starpharma to expand its Melbourne-based agricultural programs, further enhancing the commercial prospects of promising candidates.

Starpharma's Priostar® dendrimer technology is being applied to improve delivery of agrochemicals to enable healthier plant growth and fight plant disease. As well as increasing efficacy, improved delivery control of chemicals can reduce both the frequency of application and amount applied. Such innovations have the potential to reduce farmers' costs and also reduce environmental impact.

March 2011 Enrolment Completed for Phase 2 BV Study

Enrolment and all patient follow-up visits in the phase 2 study of VivaGel® for the treatment of bacterial vaginosis (BV) were completed, with data being processed and results to be available in the second quarter of the year.

May 2011 VivaGel® Coated Condom: Licence Agreement for Japan with Okamoto

A licence agreement was signed with Okamoto Industries Inc in relation to the VivaGel®-coated condom for the Japanese market. Japan is the world's second largest condom market, and Okamoto is the market leader for condoms sold in Japan.

Under the terms of the agreement Okamoto secured marketing rights to the VivaGel®-coated condom in Japan. Starpharma will receive royalty and milestone payments and Okamoto will undertake registration and launch of the product in Japan. The coated condoms marketed by Okamoto will carry the VivaGel® brand.

May 2011 VivaGel® Demonstrates Efficacy in BV
Starpharma released results of a major phase 2 clinical study that demonstrated efficacy of VivaGel® for the treatment of bacterial vaginosis (BV)

Key Points:
• VivaGel® meets primary endpoint, demonstrating significant efficacy for treatment of BV
• VivaGel® expected to avoid many shortcomings of existing therapies
• Trial results support new patent filing which extends VivaGel® protection to at least 2032
• Planning underway for Phase 3 trials for VivaGel® for BV treatment
• BV prevention trial of VivaGel® to commence Q3 2011
• Addressable global market for BV treatment and prevention potentially exceeds US$1 billion.

June 2011 Dendrimer-docetaxel formulation advanced as lead candidate in drug delivery cancer program.

Starpharma announced the nomination of leading anti-cancer drug docetaxel as a lead candidate in its cancer drug delivery program following encouraging early results. The Company has been applying its dendrimer technology to the reformulation of existing off-patent cancer drugs, and following promising initial results, announced that it will advance a dendrimer-docetaxel formulation to further pre-clinical studies as a lead candidate in its drug delivery cancer program.

Docetaxel is an important chemotherapy drug to treat breast cancer, lung cancer and prostate cancer, and last year generated sales of €2.122 billion (US$3 billion).

Docetaxel reformulated with a suite of Starpharma's dendrimers showed a 2,000 to 8,000-fold improvement in water solubility, potentially allowing for the development of a novel, improved formulation of this important cancer drug.

Financial Summary

For the year ended 30 June 2011 the consolidated entity incurred an operating loss after income tax of $8,930,000 (June 2010: $6,378,000).

	Year Ended 30 June	
Income statement	**2011 $'000**	2010 $'000
Revenue from continuing operations	**2,125**	2,103
Other income	**1,178**	3,805
Research and development expenses	**(5,986)**	(5,723)
Administration expenses	**(6,231)**	(6,548)
Finance costs	**(16)**	(18)
Loss attributable to members	**(8,930)**	(6,378)

Income statement
The reported net loss after tax of $8,930,000 is consistent with the company's strategic plans and budget estimates, the increase includes expenditure for the successful major phase 2 VivaGel® clinical trial for the treatment of bacterial vaginosis; and Starpharma's internal development programs for drug delivery and agrochemicals.

Total revenue and other income for the year was $3,303,000, a reduction of $2,605,000 from the previous year, on lower grant income from the US National Institutes of Health. Revenue from partners continues to be an important component in developing and commercialising our pipeline while minimising cash flows. All research and development expenditure, including patenting costs, were fully expensed in the current and prior year.

Balance sheet
At 30 June 2011 the group's cash position was $18,918,000 (2010: $22,851,000). There was an increase in contributed equity of $3,633,000 (2010: $16,126,000) on the exercise of options during the year.

Statement of cash flows
Net operating cash outflow for the year was $6,476,000 (2010: $3,630,000). Cash flow from financing activities of $3,508,000 (2010: $14,965,000) included the proceeds on the exercise of options.

Earnings per share

	2011	2010
Basic loss per share	**($0.04)**	($0.03)
Diluted loss per share	**($0.04)**	($0.03)

Net tangible assets

	2011	2010
Net tangible asset backing per ordinary share	**$0.07**	$0.09

Significant changes in the state of affairs

There was an increase in contributed equity of $3,633,000 (2010: $16,126,000) the majority on the exercise of options during the year.

Matters subsequent to the end of the financial year

On 17 August 2011 Starpharma announced two important developments in relation to the commercialisation of its VivaGel®-coated condom.

Starpharma terminates condom coating agreement with Reckitt Benckiser

Due to the failure to achieve satisfactory progress in relation to certain commercialisation milestones for the VivaGel®-coated condom, Starpharma's Board has taken the decision to terminate the Licence granted to Reckitt Benckiser (RB; formerly SSL International plc) to commercialise the VivaGel®-coated condom and all of RB's rights to the product, effective immediately.

Starpharma executes condom coating agreement with Ansell
Starpharma has executed a Licence Agreement with Ansell Limited (ASX:ANN) giving Ansell marketing rights to the VivaGel®-coated condom. The Agreement covers marketing rights to the coated condom in countries which exclude Japan and a number of Asian markets.

Under the agreement Ansell will pay Starpharma royalties on sales of VivaGel®-coated condoms and will support registration and other commercialisation costs. Ansell is also responsible for manufacturing the VivaGel®-coated condom and marketing of the product, which will include the VivaGel® brand together with the respective Ansell brand.

No other matters or circumstances have arisen since 30 June 2011 that have 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 group will continue its activities as described.

Additional comments on expected results of operations of the group are included in this report under the review of operations.

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

Regulatory Environment

There were no significant changes in laws or regulations during the 2011 financial year or since the end of the year affecting the business activities of the group, and the directors are not aware of any such changes in the near future.

Environmental regulation

The group is subject to environmental regulations and other licences in respect of its research and development facilities. There are adequate systems in place to ensure compliance with relevant Federal, State and Local environmental regulations and the Directors are not aware of any breach of applicable environmental regulations by the group.

Legal

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

Health and Safety

The Board, CEO and senior management team of the group are committed to providing and maintaining a safe and healthy working environment for the Company's employees and anyone entering its premises or with connection to the Company's business operations. The Company has adopted an Occupational Health and Safety (OH&S) Policy and has an established OH&S Committee structure as part of its overall approach to workplace safety. Further details of the Company's policy and practices are set out in the corporate governance statement on page 30 of this annual report.

Information on Directors

Peter T Bartels, *AO*, FAISM, FRS (age 70)

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

129,804 ordinary shares in Starpharma Holdings Limited

Independent non-executive director and Chairman for eight years. Mr. Bartels has considerable experience in the pharmaceutical industry; while working for Abbott Laboratories he was responsible for the introduction of a wide range of industrial, agricultural, veterinary and human pharmaceuticals into the Australian market. He was a director of Drug Houses of Australia and was managing director of DHA Pharmaceuticals. He has been a major player in corporate Australia, having held the positions of CEO and Managing Director of both Coles Myer Ltd and Fosters Brewing Company Ltd. He is a past Chairman of the Australian Sports Commission, the Australian Institute of Sport, the Commonwealth Heads of Government Committee for Sport and the Royal Women's and Royal Children's Hospitals. Peter is presently Chair of the Dean's external Advisory Council, for the Faculty of Medicine, Dentistry and Health Sciences at The University of Melbourne.

Other current directorships of listed entities: None

Former directorships of listed entities in last 3 years: None

Jacinth (Jackie) K Fairley BSc, BVSc (Hons), MBA (age 48)

Executive director
Chief Executive Officer

1,819,821 ordinary shares in Starpharma Holdings Limited

Dr Fairley was appointed Chief Executive Officer of Starpharma on 1 July 2006 after serving in the role of Chief Operating Officer from July 2005. As CEO and a Director of the Board, Jackie's responsibilities include involvement in setting strategic direction, oversight of operations and financing activities for the group. She is also plays an active role in driving key commercial negotiations and development programs and corporate activity. Jackie has more than 20 years' experience in the pharmaceutical and biotechnology industries working in business development and senior management roles with companies including CSL and Faulding (now Hospira). Former CEO of Cerylid Biosciences, Jackie also spent 5 years as a Vice President for Faulding's injectable division and 5 years with CSL in various executive roles. She holds first class honours degrees in Science and Veterinary Science, and has an MBA from the Melbourne Business School (MBS) where she was the recipient of the Clemenger Medal. In 2010, Jackie was appointed to the board of directors of MBS.

Other current directorships of listed entities: None

Former directorships of listed entities in last 3 years: None

Ross Dobinson B Bus (Acc) (age 59)

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

Nil ordinary shares in Starpharma Holdings Limited

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

Other current directorships of listed entities: Non-executive director of Acrux Ltd (director since 2000 and Chairman since 31 January 2006)

Former directorships of listed entities in last 3 years: Executive Chairman of Hexima Limited (delisted 17 June 2011) since 21 July 2010

Richard A Hazleton BSChE, MSChE, HonDrEngr, HonDrCommSci (age 69)

Independent Non-executive director
Member of remuneration & nomination committee

142,616 ordinary shares in Starpharma Holdings Limited

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

Other current directorships of listed entities: None

Former directorships of listed entities in last 3 years: None

Peter J Jenkins MB, BS (Melb), FRACP (age 65)

Independent Non-executive director
Member of audit & risk committee
Deputy Chairman from 17 June 2011

1,426,000 ordinary shares in Starpharma Holdings Limited

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

Other current directorships of listed entities: Nil

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

John W Raff Dip. Ag Sc, BSc, PhD (age 62)

Non-executive director
Deputy Chairman until his resignation on 17 June 2011

7,280,777 ordinary shares in Starpharma Holdings Limited

Former CEO of Starpharma, holding the position for nine years until his retirement on 1 July 2006. Previously General Manager of the Biomolecular Research Institute. Co-founder, director and major shareholder of a technology based agricultural seed company. Past Chairman of the BioMelbourne Network. Also founder and investor in a number of other start-up technology companies. Resigned 17 June 2011.

Other current directorships of listed entities: None

Former directorships of listed entities in last 3 years: None

Company Secretary

The Company Secretary is Mr Ben Rogers (age 63). He was a member of Starpharma's start-up/IPO management team and has been Company Secretary since February 1998, with responsibilities that included the role of Chief Financial Officer until 31 December 2008. Mr Rogers has extensive experience in finance, corporate governance and HR management with CSIRO research laboratories and Co-operative Research Centres and is an affiliate of Chartered Secretaries Australia.

Meetings of Directors

The number of meetings of the Company's Board of directors and of each committee held during the year ended 30 June 2011, and the numbers of meetings attended by each director were:

	Full meetings of directors	Meetings of committees	
Name		**Audit & risk**	**Remuneration & nomination**
P T Bartels	6 of 6	2 of 2	1 of 1
J W Raff	5 of 5	N/A	N/A
J K Fairley	6 of 6	N/A	N/A
R Dobinson	6 of 6	2 of 2	1 of 1
P J Jenkins	5 of 6	2 of 2	N/A
R A Hazleton	6 of 6	N/A	1 of 1

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

Retirement, election and continuation in office of Directors

Dr J W Raff retired as a director on 17 June 2011.

Mr P Bartels retires by rotation as director at the annual general meeting and, being eligible, offers himself for re-election.

Remuneration Report

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

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

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

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

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

Directors' fees
Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. The Chairman's fees are determined independently from the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration. Non-executive directors do not receive bonuses, share options or other forms of equity securities, or any performance-related remuneration or retirement allowances. Non-executive directors' fees are reviewed annually by the remuneration and nomination committee, taking into account comparable data from the biotechnology sector. Non-executive directors' fees were last increased with effect from 1 January 2010. Fees and payments are determined within an aggregate non-executive directors' fee pool limit, which is periodically recommended for approval by shareholders. The aggregate amount currently stands at $450,000 which was approved by shareholders on 15 November 2006. This amount (or some part of it) is to be divided among the non-executive directors as determined by the Board. The aggregate amount paid to non-executive directors for the year ended 30 June 2011 was $357,833 (2010: $300,000). Superannuation contributions required under the Australian superannuation guarantee legislation continue to be made and are deducted from the directors' overall fee entitlements.

Relationship between executive reward and company financial performance
The Company's remuneration policy aligns executive reward with the interests of shareholders. The primary focus is on sustained growth in shareholder value through achievement of R&D and commercial milestones, and therefore performance goals are not necessarily linked to financial performance measures typical of companies operating in other market segments. The Company has incurred losses in this financial year and in the previous 5 financial years and has no certainty that this will change in the near term. Remuneration is set based on key performance indicators (KPIs) typical of a biotechnology company in Starpharma's lifecycle, which may include (but are not limited to) successful negotiations of commercial contracts, achieving key research and development milestones, and ensuring the availability of adequate capital to achieve stated objectives. Improvement in the rating of the Company against peer biotechnology companies may also be taken into consideration in determining the performance of the executive team, and can be assessed on a qualitative basis by reviewing external sources such as biotechnology publications and non-commissioned research reports.

Other factors taken into account in determining remuneration packages include demonstrated record of performance, internal and external relativities, and the Company's ability to pay.

Executive pay structure
Remuneration packages are set at levels that are intended to attract and retain high calibre executives capable of managing the group's operations.
The executive pay and reward framework comprises:
– base pay and benefits, including superannuation
– short term performance incentives, and
– long term incentives through participation in the Starpharma employee equity plans.

The combination of these comprises an executive's total remuneration.

Short-term performance incentives
With the exception of the CEO, executive service agreements do not include pre-determined bonus or equity allocations, but cash incentives (bonuses) may be awarded at the end of the performance review cycle for specific contributions, or upon achievement of significant Company milestones at the discretion of the Board. Following a performance evaluation, the amount of possible bonus payable to each executive is determined by the remuneration and nomination committee, taking into account factors including the accountabilities of the role and impact on the Company. There are no guaranteed base pay increases in any executives' contracts.

Long-term incentives
Long-term incentives for executives and employees to deliver long-term shareholder returns are provided by a combination of equity plans that may include:
- an Employee Performance Rights Plan;
- an Employee Share Plan ($1,000 Plan); and
- an Employee Share Option Plan.

Participation in these plans is at the board's discretion and no individual has a contractual right to participate in a plan or to receive any guaranteed benefits.

Starpharma Employee Performance Rights Plan
In 2010 the Board approved the introduction of the Starpharma Employee Performance Rights Plan (ASX code SPLAK). The objective of the Plan is to assist in the recruitment, reward, retention and motivation of employees of the company. The Plan allows for the issue of performance rights (being rights to receive fully paid ordinary shares subject to continued employment with the Company and the satisfaction of certain performance hurdles over a specified period). The key points of the Plan are:
- All executives and staff and certain contractors may be invited to apply for Rights under the scheme.
- One Right once vested is equivalent to one fully paid ordinary share.
- Rights and the resultant shares are granted for no consideration.
- Appropriate vesting conditions can be applied to each allocation. The standard vesting condition in the plan rules is continued employment for two years.
- At the end of the vesting period a further disposal restriction (Holding Lock) may be applied to restrict disposal of the resulting shares. The standard Holding Lock in the plan rules is one year after vesting.
- Rights will lapse on cessation of employment before the vesting date, except for good leaver and change of control provisions at the Board's discretion.

- In the event of a change of control of the Company the Board has the discretion to determine whether Rights will vest and become exercisable. In making its decision, the Board must consider:
  - (i) the portion of the Vesting Period elapsed; and
  - (ii) the extent to which the Performance Conditions (if any) have been met.
- In the event of cessation due to death, illness, permanent disability, redundancy or any other circumstance approved by the Board unvested Rights will lapse, unless the Board determines otherwise having regard to:
  - (i) the portion of the Vesting Period elapsed; and
  - (ii) the extent to which the Performance Conditions (if any) have been met.
- The Holding Lock on the resulting shares will be automatically removed on cessation of employment.

Starpharma Employee Share Plan ($1,000 Plan)
All executives and staff, excluding directors, are eligible to participate in the Starpharma Employee Share Plan ($1,000 Plan). The objective of the $1,000 Plan is to assist in the reward, retention and motivation of employees of the company. An annual allocation of up to $1,000 of shares may be granted and taxed on a concessional basis. Shares are granted under the $1,000 Plan for no consideration and are escrowed for 3 years while participants are employed by the Company.

Starpharma Employee Share Option Plan
Options are granted under the Starpharma Holdings Limited Employee Share Option Plan (ASX code SPLAM) which was approved by shareholders at the 2007 annual general meeting. All executives and staff are eligible to participate in the Plan. The objective of the Plan is to assist in the recruitment, reward, retention and motivation of employees of the company. Options are granted under the Plan for no consideration. The exercise price of options granted under the Plan must be not less than the market price at the time the decision is made to invite a participant to apply for options. The exercise price is usually calculated on the basis of 15% above market price. Market price is calculated as the volume-weighted average price (VWAP) of the shares in the 15 days preceding the approval to grant the options.

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

B. Details of remuneration

Details of the nature and amount of each element of the remuneration of each director of Starpharma Holdings Limited and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) and the specified executives of Starpharma Holdings Limited and the consolidated entity are set out in the following tables. The key management personnel of Starpharma Holdings Limited include the directors as per pages 13 to 14. The key management personnel of the Starpharma Holdings Limited group include the directors as per pages 13 to 14 above and the following executive officers, which include the five highest paid executives of the entity:

N J Baade	Chief Financial Officer
C P Barrett	VP, Business Development
J K Fairley	Chief Executive Officer
M L McColl	VP, Business Development (from 16 August 2010)
D J Owen	VP, Research
J R Paull	VP, Development and Regulatory Affairs
B P Rogers	Company Secretary

Directors and Key management personnel of Starpharma Holdings Limited

2011	**Short-term benefits**			**Post-employment**	**Long-term benefits**	**Share-based payments**			
Name	Cash salary & fees $	Cash bonus# $	Non-monetary benefits $	Super-annuation $	Long service leave $	Options# $	Shares# $	Performance Rights# $	**Total $**
Non-executive directors									
P T Bartels	114,896	–	–	5,104	–	–	–	–	**120,000**
J W Raff[1]	11,773	–	–	46,060	–	–	–	–	**57,833**
R Dobinson	60,000	–	–	–	–	–	–	–	**60,000**
P J Jenkins	30,000	–	–	30,000	–	–	–	–	**60,000**
R A Hazleton	60,000	–	–	–	–	–	–	–	**60,000**
Executive directors									
J K Fairley	310,852	150,000	39,570	24,961	2,765	–	–	164,904	**693,052**
Totals	587,521	150,000	39,570	106,125	2,765	–	–	164,904	**1,050,885**

[1] Resigned 17 June 2011.

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

There were no retirement benefits paid in the current or prior year.

Directors and Key management personnel of Starpharma Holdings Limited

2010	Short-term benefits			Post-employment	Long-term benefits	Share-based payments			
Name	Cash salary & fees $	Cash bonus# $	Non-monetary benefits $	Super-annuation $	Long service leave $	Options# $	Shares# $	Performance Rights# $	**Total $**
Non-executive directors									
P T Bartels	73,395	–	–	26,605	–	–	–	–	**100,000**
J W Raff	–	–	–	50,000	–	–	–	–	**50,000**
R Dobinson	50,000	–	–	–	–	–	–	–	**50,000**
P J Jenkins	–	–	–	50,000	–	–	–	–	**50,000**
R A Hazleton	50,000	–	–	–	–	–	–	–	**50,000**
Executive directors									
J K Fairley	343,396	200,000[1]	6,393	24,961	9,842	2,059	985,714	81,556	**1,653,921**
Totals	516,791	200,000	6,393	151,566	9,842	2,059	985,714	81,556	**1,953,921**

[1] In 2010, the Board offered an additional $50,000 bonus to J K Fairley above the contractual $150,000 payable per year on the achievement of predetermined objectives. In the prior year, J K Fairley offered and the Board agreed to reduce the maximum bonus payable to $50,000 in view of the Company's cash reserves at that time.

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

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

2011		**Short-term benefits**		**Post-employment**	**Long-term benefits**	**Share-based payments**			
Name	Cash salary & fees $	Cash bonus[#] $	Non-monetary benefits $	Super-annuation $	Long service leave $	Options[#] $	Shares[#] $	Performance Rights[#] $	**Total $**
Non-executive directors									
P T Bartels	114,896	–	–	5,104	–	–	–	–	**120,000**
J W Raff[1]	11,773	–	–	46,060	–	–	–	–	**57,833**
R Dobinson	60,000	–	–	–	–	–	–	–	**60,000**
P J Jenkins	30,000	–	–	30,000	–	–	–	–	**60,000**
R A Hazleton	60,000	–	–	–	–	–	–	–	**60,000**
Executive directors									
J K Fairley	310,852	150,000	39,570	24,961	2,765	–	–	164,904	**693,052**
Other Key Management Personnel									
B P Rogers	87,729	4,333	2,013	49,999	4,568	12,752	1,000	10,344	**172,738**
J R Paull	175,212	18,349	13,337	18,238	23,308	16,212	1,000	12,931	**278,587**
C P Barrett	189,524	18,349	–	18,708	1,733	16,212	1,000	12,931	**258,457**
N J Baade	159,473	18,349	12,643	22,228	2,200	15,668	1,000	12,931	**244,492**
D J Owen	161,926	18,349	528	24,945	4,487	15,668	1,000	12,931	**239,834**
M L McColl[2]	162,382	6,881	–	15,234	268	–	1,000	12,931	**198,696**
Totals	1,523,767	234,610	68,091	255,477	39,329	76,512	6,000	239,903	**2,443,689**

[1] Resigned 17 June 2011.

[2] Employed from 16 August 2011.

[#] All performance related remuneration, including cash bonuses, shares, performance rights and options granted are determined to be an ‘at risk’ component of total remuneration.

There were no retirement benefits paid in the current or prior year.

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

2010	**Short-term benefits**			**Post-employment**	**Long-term benefits**	**Share-based payments**			
Name	Cash salary & fees $	Cash bonus# $	Non-monetary benefits $	Super-annuation $	Long service leave $	Options# $	Shares# $	Performance Rights# $	**Total $**
Non-executive directors									
P T Bartels	73,395	–	–	26,605	–	–	–	–	**100,000**
J W Raff	–	–	–	50,000	–	–	–	–	**50,000**
R Dobinson	50,000	–	–	–	–	–	–	–	**50,000**
P J Jenkins	–	–	–	50,000	–	–	–	–	**50,000**
R A Hazleton	50,000	–	–	–	–	–	–	–	**50,000**
Executive directors									
J K Fairley	343,396	200,000[1]	6,393	24,961	9,842	2,059	985,714	81,556	**1,653,921**
Other Key Management Personnel									
B P Rogers	80,431	6,932	8,090	49,977	6,131	18,319	1,000	–	**170,880**
J R Paull	172,469	11,009	10,198	17,061	5,548	24,555	1,000	–	**241,840**
C P Barrett	183,132	13,761	–	17,720	5,302	24,555	1,000	–	**245,470**
N J Baade	153,662	11,009	8,875	15,272	4,244	21,243	1,000	–	**215,305**
D J Owen	153,165	13,761	528	15,023	407	21,243	1,000	–	**205,127**
Totals	1,259,650	256,472	34,084	266,619	31,474	111,974	990,714	81,556	**3,032,543**

[1] In 2010, the Board offered an additional $50,000 bonus to J K Fairley above the contractual $150,000 payable per year on the achievement of predetermined objectives. In the prior year, J K Fairley offered and the Board agreed to reduce the maximum bonus payable to $50,000 in view of the Company's cash reserves at that time.

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

C. Service Agreements

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

J K Fairley Chief Executive Officer
– No fixed term of agreement
– Base salary, inclusive of superannuation, per annum as at 30 June 2011 of $371,315, to be reviewed annually by the remuneration and nomination committee.
– A cash bonus up to $150,000 per year, commencing on 1 July 2008 allocated proportionately on the achievement of predetermined objectives.
– Fringe benefits consist of on-site car parking.
– Subject to termination at any time by:
  (i) the Executive giving to the Company twelve months' notice in writing; or
  (ii) the Company giving to the Executive six months' notice in writing. If the Company gives notice in accordance with this clause, the Executive will be entitled to a termination payment upon the expiration of the notice period, of an amount equal to 6 months' total remuneration.
– The Executive's employment may be terminated by the Company at any time without notice if the Executive:
  (i) is guilty of serious misconduct;
  (ii) becomes unable to pay the Executive's debts as they become due; or
  (iii) is found guilty by a court of a criminal offence.

B P Rogers Company Secretary
– No fixed term of agreement.
– Base salary, inclusive of superannuation, per annum as at 30 June 2011 of $135,580 part-time, to be reviewed annually by the remuneration and nomination committee.
– Fringe benefits consist of on-site car parking.
– Payment of termination benefit on termination by the employer, other than for serious breach of obligations to the employer, wilful neglect of duty or serious misconduct, equal to thirteen weeks gross remuneration.

J R Paull VP – Development and Regulatory Affairs
– No fixed term of agreement.
– Base salary, inclusive of superannuation, per annum as at 30 June 2011 of $203,721, to be reviewed annually by the remuneration and nomination committee.

– Fringe benefits consist of on-site car parking.
– Subject to termination at any time by:
(i) the Executive giving to the Company not less than three months written notice; or
(ii) the Company giving to the Executive written notice, or payment in lieu of that notice, which notice period shall be six months.
– The Executive's employment may be terminated by the Company at any time without notice for serious breach of obligations to the employer, wilful neglect of duty, serious misconduct or bankruptcy.

C P Barrett VP – Business Development
– No fixed term of agreement.
– Base salary, inclusive of superannuation, per annum as at 30 June 2011 of $209,634, to be reviewed annually by the remuneration and nomination committee.
– Subject to termination at any time by:
(i) the Executive giving to the Company not less than two months written notice; or
(ii) the Company giving to the Executive written notice, or payment in lieu of that notice, which notice period shall be four months.
– The Executive's employment may be terminated by the Company at any time without notice for serious breach of obligations to the employer, wilful neglect of duty, serious misconduct or bankruptcy.

N J Baade Chief Financial Officer
– No fixed term of agreement.
– Base salary, inclusive of superannuation, per annum as at 30 June 2011 of $201,291, to be reviewed annually by the remuneration and nomination committee.
– Fringe benefits consist of on-site car parking.
– Subject to termination at any time by:
(i) the Executive giving to the Company not less than two months written notice; or
(ii) the Company giving to the Executive written notice, or payment in lieu of that notice, which notice period shall be four months.
– The Executive's employment may be terminated by the Company at any time without notice for serious breach of obligations to the employer, wilful neglect of duty, serious misconduct or bankruptcy.

D J Owen VP – Research
– No fixed term of agreement.
– Base salary, inclusive of superannuation, per annum as at 30 June 2011 of $194,040, to be reviewed annually by the remuneration and nomination committee.
– Subject to termination at any time by:
(i) the Executive giving to the Company not less than three months written notice; or
(ii) the Company giving to the Executive written notice, or payment in lieu of that notice, which notice period shall be three months.
– The Executive's employment may be terminated by the Company at any time without notice for serious breach of obligations to the employer, wilful neglect of duty, serious misconduct or bankruptcy.

M L McColl VP – Business Development (from 16 August 2010)
– No fixed term of agreement.
– Base salary, inclusive of superannuation, per annum as at 30 June 2011 of $204,000, to be reviewed annually by the remuneration and nomination committee.
– Subject to termination at any time by:
(i) the Executive giving to the Company not less than three months written notice; or
(ii) the Company giving to the Executive written notice, or payment in lieu of that notice, which notice period shall be three months.
– The Executive's employment may be terminated by the Company at any time without notice for serious breach of obligations to the employer, wilful neglect of duty, serious misconduct or bankruptcy.

D. Share-based compensation

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

There were no options granted in the current or prior year. The terms and conditions of each grant of options affecting remuneration of each director of the company and the key management personnel of the group in this or future reporting periods are as follows:

Grant date	Date exercisable	Expiry date	Exercise price	Value per option at grant date	% vested
1 January 2009	29 August 2010	28 August 2012	$0.29	$0.11	100%
29 June 2009	29 June 2011	28 June 2014	$0.37	$0.23	100%

Options granted under the Plan carry no dividend or voting rights. The weighted average remaining contractual life of share options outstanding at the end of the year was 2.42 years (2010: 1.55 years).

Fair value of options granted

There were no options granted in the current or prior year. For earlier years, the fair value at grant date was independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option. The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

Shares issued to directors and key management personnel on the exercise of options

Details of ordinary shares issued to the key management personnel of the group on the exercise of options in the current year were:

	Number of shares issued on exercise of options during the year		Intrinsic value[1] $	
Name	**2011**	2010	**2011**	2010
J K Fairley	**350,000**	–	**74,775**	–
B R Rogers	**100,000**	–	**22,500**	–
J R Paull	**350,000**	–	**82,250**	–
C P Barrett	**175,000**	–	**60,125**	–
N J Baade	**300,000**	–	**128,000**	–
D J Owen	**200,000**	–	**60,500**	–

[1] The intrinsic value of each option exercised has been determined as opening share price on the date of allotment of shares less the option exercise price.

The amount paid per ordinary share by the key management personnel of the group on the exercise of options were as follows:

Share allotment date on exercise of options	Amount paid per share
24 Sep 2010	$0.50
3 Nov 2010	$0.50
10 Nov 2010	$0.50
11 Nov 2010	$0.50
17 Nov 2010	$0.50
17 Nov 2010	$0.29
26 Nov 2010	$0.50
10 Dec 2010	$0.50
10 Dec 2010	$0.29
19 May 2011	$0.29

No amounts are unpaid on any shares issued on the exercise of options.

Share options granted to directors and key management personnel

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

	Number of options vested during the year		Number of options expired during the year	
Name	**2011**	2010	**2011**	2010
J K Fairley	**–**	200,000	**300,000**	–
B R Rogers	**200,000**	–	**100,000**	–
J R Paull	**275,000**	–	**–**	–
C P Barrett	**275,000**	–	**200,000**	–
N J Baade	**225,000**	–	**–**	–
D J Owen	**225,000**	–	**–**	–

The options were granted under the Starpharma Holdings Limited Employee Share Option Plan.

No options have been granted to directors or key management personnel in the current or prior year, or since the end of the year. No other directors or key management personnel hold options under the Plan.

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No options lapsed during the year as a result of performance milestones not being met.

Shares and Performance Rights
Details of ordinary shares and performance rights over unissued ordinary shares of Starpharma Holdings Limited provided as remuneration to any of the directors or the key management personnel of the group with greatest authority as part of their remuneration were as follows:

	Number of shares granted during the year		**Number of performance rights granted during the year**	
Name	**2011**	2010	**2011**	2010
J K Fairley	**–**	1,428,571	**–**	750,000
B R Rogers	**1,190**	1,418	**65,000**	–
J R Paull	**1,190**	1,418	**80,000**	–
C P Barrett	**1,190**	1,418	**80,000**	–
N J Baade	**1,190**	1,418	**80,000**	–
D J Owen	**1,190**	1,418	**80,000**	–
M L McColl	**1,190**	–	**80,000**	–

CEO Equity Incentive Plan (Performance Rights)
Details of ordinary shares issued on the vesting of performance rights of Starpharma Holdings Limited provided as remuneration to any of the directors or the key management personnel of the group with greatest authority as part of their remuneration were as follows:

	Number of shares issued of the vesting of performance rights during the year		**Number of performance rights lapsed during the year**	
Name	**2011**	2010	**2011**	2010
J K Fairley	**487,500**	–	**262,500**	–

The value at vesting date of performance rights under the CEO Equity Incentive Plan that vested during 2011 was $407,062.

No other performance rights have vested or lapsed; and other no shares were issued on the vesting of performance rights in the current or prior year provided as remuneration to any of the directors or the key management personnel of the group.

The terms and conditions of the grant of performance rights under the CEO Equity Plan were as follows:

Grant date	Vesting Date	Holding Lock Expiry date	Number of Rights	Performance Measure	Value per right at grant date	% vested
31 March 2010	31 December 2010	1 March 2013	262,500	Share Price ≥ $0.65	$0.37	100%
31 March 2010	31 December 2010	1 March 2013	262,500	Share Price ≥ $1.00	$0.09	Nil
31 March 2010	31 December 2010	1 March 2013	225,000	Achievement of KPIs	$0.55	100%

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

Details of remuneration: cash bonuses, shares, performance rights and options
For each cash bonus and grant of equity included in the tables on pages 16 to 23, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and individual performance objectives is set out below. The options vest over the specified periods providing vesting criteria are met. No options or rights will vest if the conditions are not satisfied, hence at the minimum value of the options and rights yet to vest is nil. The maximum value of the options and rights yet to vest has been determined as the amount of the grant date fair value of the options and rights that is yet to be expensed.

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	Cash bonus		Performance rights		Grant date value of shares granted during 2011[2]	Grant date value of rights granted during 2011[2]	Accounting values being amortised in respect of the 2011 equity grants in future years[3]		Remuneration consisting of shares, options & rights[4]
	Paid	Forfeited	Vested	Forfeited			2012	2013	
Name	%	%	%	%	$	$	$	$	%
J K Fairley	100%	–	65%	35%	–	–	–	–	24%
B P Rogers	–[1]	–	–	–	1,000	25,088	12,579	2,165	14%
J R Paull	–[1]	–	–	–	1,000	31,360	15,723	2,706	11%
C P Barrett	–[1]	–	–	–	1,000	31,360	15,723	2,706	12%
N J Baade	–[1]	–	–	–	1,000	31,360	15,723	2,706	12%
D J Owen	–[1]	–	–	–	1,000	31,360	15,723	2,706	12%
M L McColl	–[1]	–	–	–	1,000	31,360	15,723	2,706	7%

[1] The bonuses paid are at the absolute discretion of the Board based on an individual's performance within the year. There is no unpaid component of the bonuses awarded.

[2] The value at grant date calculated in accordance with AASB 2 *Share-based Payments* of shares and performance rights granted during the year as part of remuneration.

[3] The maximum value of options and performance rights is determined at grant date and is amortised over the applicable vesting period. The amount which will be included in a given key management personnel's remuneration for a given year is consistent with this amortisation amount. No options or performance rights will vest if the conditions are not satisfied, hence the minimum value yet to vest is nil.

[4] The percentage of the value of remuneration consisting of equity, based on the market value of shares at grant date, and the fair value of options and performance rights expensed during the current year.

Shares under option

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

Grant date	Expiry date	Issue price of shares	Number under options
21 August 2007	21 August 2012	$0.43	1,684,809
1 January 2009	28 August 2012	$0.29	395,000
29 June 2009	28 June 2014	$0.37	974,000

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

Shares issued on the exercise of options
The following ordinary shares of Starpharma Holdings Limited were issued during the year to the date of this report on the exercise of options. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares (Option exercise price)	Number of shares issued
6 October 2006	$0.50	280,000
2 January 2007	$0.50	20,000
4 April 2007	$0.50	590,000
21 August 2007	$0.43	5,882,310
31 October 2007	$0.50	330,000
14 November 2007	$0.50	350,000
1 January 2009	$0.29	983,000
29 June 2009	$0.37	100,000

Shares under rights
Unissued ordinary shares of Starpharma Holdings Limited under the Employee Performance Rights Plan granted during the year to the date of this report are as follows:

Grant date	Vesting date	Holding Lock date	Number of rights granted	Balance of rights at date of report
2 September 2010	31 August 2012	31 August 2013	830,800	750,800

Rights and the resultant shares are granted for no consideration.

Shares issued on the vesting of rights
The following ordinary shares of Starpharma Holdings Limited were issued during the year to the date of this report on the exercise of performance granted under the CEO Equity Incentive Plan and Employee Performance Rights Plan. No amounts are unpaid on any of the shares.

Date rights granted	Issue price of shares (Exercise price of right)	Number of shares issued
31 March 2010	$ -	487,500
2 September 2010	$ -	13,000

Insurance of officers

During the financial year, Starpharma Holdings Limited arranged to insure the directors and executive officers of the Company and related bodies corporate. The terms of the policy prohibit disclosure of the amount of the premium paid. The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Audit & non audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the group are important. Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below. The board of directors has considered the position and, in accordance with the advice received from the audit and risk committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

– all non-audit services have been reviewed by the audit and risk committee to ensure they do not impact the impartiality and objectivity of the auditor

– none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

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

Assurance Services	**2011** **$**	2010 $
Audit or review of financial reports of the entity or any entity in the group under the *Corporations Act 2001*	**113,000**	124,500
Other assurance services – Grant reviews & program audits	**18,000**	27,300

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

Auditors' Independence Declaration
A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 26.

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

Auditor

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

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

Peter T Bartels, *AO*
Director
Melbourne, 29 August 2011

PRICEWATERHOUSECOOPERS

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Auditor's Independence Declaration

As lead auditor for the audit of Starpharma Holdings Limited for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been:

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

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

Anton Linschoten
Partner
PricewaterhouseCoopers

Melbourne
29 August 2011

Corporate Governance Statement

Starpharma Holdings Limited ("the Company") and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board guides and monitors the Company's activities on behalf of the shareholders. In developing policies and setting standards the Board considers the Australian Securities Exchange ("ASX") Corporate Governance Principles and Recommendations (2nd Edition with 2010 Amendments) ("the CGC Recommendations"). The Corporate Governance Statement set out below describes the Company's current corporate governance principles and practices which the Board considers to comply with the CGC Recommendations. All of these practices, unless otherwise stated, were in place for the entire year. This corporate governance statement is available on the Company's website. The company and its controlled entities together are referred to as the group in this statement.

1. The Board of Directors

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

1.1 Board charter

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

1.1.1 Board Composition

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

1.1.2 Functions Reserved for the Board

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

(a) Strategic Issues
– approving the Company's corporate strategy;
– overseeing and monitoring organisational performance and the achievement of the group's strategic goals and objectives;
– approving any major transaction not included in the budget or outside the ordinary course of the business;
– determining the structure of the Company and the definition of the business;

(b) Shareholding Items
– issuing shares, options or performance rights;
– granting special rights to shares;
– determining the amount of a dividend;

(c) Financial Items
– approving the Company's credit policy;
– reviewing and approving the annual budget and financial plans including available resources and major capital expenditure initiatives;
– seeking credit in excess of $50,000;
– giving any guarantee or letter of credit or any security over the Company's assets;

(d) Expenditure Items
– approval of the annual and half-year financial reports;
– approving expenditure exceeding $100,000, unless reimbursable by an external funding body in which case the limit is $250,000;
– approving divestments of assets exceeding $50,000;

(e) Audit
– approving appointment or removal of external auditors;
– considering any external audit reports;

(f) Board and Senior Management
– establishing corporate governance policies;
– appointment, performance assessment and, if necessary, removal of the CEO
– determining remuneration of the CEO;
– ratifying the appointment and, if necessary, the removal of senior executives;

1.1.3 Other Board Responsibilities

– enhancing and protecting the reputation of the group;
– overseeing the operation of the group, including its systems for control, accountability, and risk management;
– monitoring financial performance;
– liaison with the Company's auditors;
– ensuring there are effective management processes in place and approving major corporate initiatives;
– reporting to shareholders.

1.2 Board members

Details of the members of the Board, their experience, qualifications, term of office and independent status are set out in the directors' report under the heading "Information on Directors". There are four non-executive directors, all of whom are deemed independent under the principles set out below, and one executive director at the date of signing the directors' report. The Board seeks to ensure that:
– at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the group and directors with an external or fresh perspective; and
– the size of the Board is conducive to effective discussion and efficient decision-making.

1.3 Directors' independence

The Company has adopted specific principles for assessing the independence of directors: To be deemed independent, a director must be a non-executive and:
– not be a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company;
– within the last three years, not have been employed in an executive capacity by the Company, or been a director after ceasing to hold any such employment;
– within the last three years, not have been a principal of a material professional adviser or a material consultant to the Company, or an employee materially associated with the service provided;
– not be a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;

– must have no material contractual relationship with the Company other than as a director;
– be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

Materiality for the purposes of applying these criteria is determined on both quantitative and qualitative bases. An amount of 5% of the individual director's net worth is considered material, and in addition a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance. A substantial shareholder for the purposes of applying these criteria is a person with a substantial shareholding as defined in section 9 of the *Corporations Act*. The Company has also considered directors' periods of service on the board, particularly in the context of the long term nature of the Company's research, development and commercialisation activities, and has concluded that length of service does not, and should not reasonably be perceived to, adversely impact upon a director's ability to act in the best interests of the company.
Under these criteria the Board has determined that all non-executive directors were independent at the date of this report.

1.4 Term of office
The Company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting following their last election, and that one third of non-executive directors (or if their number is not a multiple of three then the number nearest to one third) retire at every annual general meeting and be eligible for re-election.

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

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

1.6 Commitment
The Board held six meetings during the year. Meetings are usually held at the Company's corporate offices and laboratory facility in the Baker IDI Building, 75 Commercial Road, Melbourne, Australia. The number of meetings of the Board and of each Board committee held during the year ended 30 June 2011, and the number of meetings attended by each director is disclosed in the Directors' Report. The commitments of non-executive directors are considered by the remuneration and nomination committee prior to their appointment to the Board and are reviewed each year as part of the annual performance assessment. Prior to appointment or being submitted for re-election each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

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

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

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

2. Corporate reporting

The Company prepares audited financial statements for each year ending 30 June, and reviewed financial statements for each half year period ending 31 December. In accordance with ASX Listing Requirements the annual financial statements are lodged with the ASX by 31 August, and half year statements are lodged with the ASX by 28 February each year. The CEO and the CFO have made the following certifications to the Board for the year ended 30 June 2011:

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

3. Board committees

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

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

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

Details of these directors' qualifications and attendance at committee meetings are set out in the directors' report pages 13 to 14. The audit and risk committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industry in which the group operates. The committee meets at least twice a year, and has direct access to the Company's auditors. The charter of this committee is to:
– review and report to the Board on the annual report, the half-year financial report and all other financial information published by the company or released to the market;
– assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
  > effectiveness and efficiency of operations,

> reliability of financial reporting, and
> compliance with applicable laws and regulations.

– oversee the effective operation of the risk management framework by:
> ensuring the effective implementation of the risk management policy and program,
> defining risk threshold levels for referral to the Board,
> ensuring that an effective system of internal compliance and control is in place,
> ensuring staff charged with risk management responsibilities have appropriate authority to carry out their functions and have appropriate access to the audit and risk committee, and
> ensuring the allocation of sufficient resources for the effective management of risk

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

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

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

3.2 Remuneration and nomination committee

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

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

Details of these directors' attendance at committee meetings are set out in the directors' report on page 14.

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

When the need for a new director is identified or an existing director is required to stand for re-election, the committee reviews the range of skills, experience and expertise on the board, identifies its needs and prepares a short-list of candidates with appropriate skills and experience. Where necessary, advice is sought from independent search consultants. Each member of the senior executive team has signed a formal employment contract covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. Each contract refers to a specific formal position description which is reviewed by the committee as necessary in consultation with the CEO and relevant executive. The remuneration and nomination committee's terms of reference include responsibility for reviewing any transaction between the organisation and the directors, or any interests associated with the directors, to ensure the structure and the terms of the transaction are in compliance with the *Corporations Act 2001* and are appropriately disclosed. The Remuneration Report is set out on pages 15 to 24.

4. External auditors

The Company's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually. The current auditors are PricewaterhouseCoopers who have been the external auditors of the Company since it commenced operations. It is PricewaterhouseCoopers policy to rotate audit engagement partners on listed companies at least every five years, and the current audit engagement partner assumed responsibility for the conduct of the audit in 2010. An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in note 18 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit and risk committee. The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

5. Risk assessment and management

The Board, through the audit and risk committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. The Company operates in a challenging and dynamic environment, and risk management is viewed as integral to realising new opportunities as well as identifying issues that may have an adverse effect on the Company's existing operations and its sustainability. The Company is committed to a proactive approach towards risk management throughout its entire business operations. The Board aims to ensure that effective risk management practices become embedded in the Company culture and in the way activities are carried out at all levels in the Company. The Board and Management recognise the importance that risk management plays in ensuring the business is able to fully capitalise on the opportunities available to it as well as mitigating potential loss. Health and Safety (see item 6) are considered to be of paramount importance and are the focus of significant risk management activities within the company. Other risk areas that are addressed include business continuity and disaster recovery, reputation, intellectual property, product development and clinical trials. Adherence to the Code of Conduct (see item 7) is required at all times and the board actively promotes a culture of quality and integrity. The Board has required management to design and implement a risk management and internal control system to manage the group's material business risks. The risk management policy, which is available on the Company website, sets out policies for the oversight of material business risks, and describes the responsibilities and authorities of the Board, the audit and risk committee, the CEO, CFO, Company Secretary, and the senior management team. The CEO, CFO and Company Secretary are responsible to the Board for the overall implementation of the risk management program. During the financial year management has reported to the board as to the effectiveness of the group's management of its material risks.

6. The environment, occupational health and safety

The Company recognises the importance of environmental issues and is committed to the highest levels of performance. There are adequate systems in place to ensure compliance with environmental regulations, and employees are encouraged to actively participate in the management of environmental and Occupational Health and Safety (OH&S) issues. In order to conduct activities the group has obtained the necessary accreditations, laboratory certifications and licenses from the relevant authorities. The directors are not aware of any breach of applicable environmental regulations.

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

7. Code of conduct

The directors are committed to the principles underpinning best practice in corporate governance, with a commitment to the highest standards of legislative compliance and financial and ethical behaviour. The Company has established a code of conduct reflecting the core values of the Company and setting out the standards of ethical behaviour expected of directors, officers and employees in all dealings and relationships including with shareholders, contractors, customers and suppliers, and with the Company. Areas covered include employment practices, equal opportunity, harassment and bullying, conflicts of interest, use of company assets and disclosure of confidential information. The code of conduct is available in the Corporate Governance section of the Company's website.

8. Trading in Company securities

The dealing in Company securities by directors, executives and employees is only permitted (subject also to complying with applicable laws) during the following periods (trading windows):
• the period starting 24 hours after the release of Starpharma's annual results and ending on 31 December;
• the period starting 24 hours after the release of the Starpharma's half-year results and ending on 30 June; and
• such other period as determined by the Chairman or a Committee of the Board.

Notwithstanding the existence of these trading windows, the Company may notify Employees not to buy, sell or otherwise deal in securities of the Company during all or part of any trading window. The other periods of the year are considered black-out periods (or closed periods) during which time Employees must not deal in securities of the Company unless there are exceptional circumstances and prior written permission from the "approving officer" (Chairman, CEO or Board, as appropriate) is given.

An Employee who wishes to enter into a margin loan must obtain written permission from the "approving officer" prior to entering into the margin loan.

Except with prior written permission from the "approving officer", Employees may not enter into any transaction which would have the effect of hedging or otherwise transferring to any other person the risk of any fluctuation in the value of:
(a) securities in the Company which are subject to a restriction on disposal under an employee share or incentive plan; or
(b) options or performance rights (or any unvested securities in the Company underlying them).

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

The Securities Trading Policy approved by the Board of Directors and released to the ASX on 16 December 2010, and is effective from that date. The Securities Trading Policy is available in the Corporate Governance section of the Company's website.

9. Continuous disclosure and shareholder communication

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

The Board has appointed the Company Secretary as the person responsible for disclosure of information to the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public. Procedures have been established for reviewing whether there is any price sensitive information that should be disclosed to the market, or whether any price sensitive information may have been inadvertently disclosed. All ASX announcements are posted on the Company's website as soon as practicable after release to the ASX. Announcements are also posted on the OTCQX website (www.otcqx.com) in order to provide timely disclosure to US investors trading in the Company's Level One ADRs (OTCQX:SPHRY).

10. Diversity

The Company is committed to workplace diversity, and the Board values the level of diversity already present within the organisation, believing that continuing to promote diversity is in the best interests of the Company, its employees and its shareholders. In June 2011 the Board approved a Diversity Policy which operates alongside the Code of Conduct, providing a framework for Starpharma to achieve a number of diversity objectives.

The Diversity Policy requires the Board to establish measurable objectives for achieving gender diversity and to assess annually both the objectives and progress in achieving them.

The Diversity Policy is available in the Corporate Governance section of the Company's website.

ANNUAL REPORT 2011

Annual Financial Report

Contents

This financial report covers the consolidated financial statements for the group consisting of Starpharma Holdings Limited and its subsidiaries. The financial report is presented in the Australian currency.

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

Its registered office and principal place of business is:
Starpharma Holdings Limited
Baker IDI Building, 75 Commercial Road
Melbourne, Victoria, 3004, Australia

A description of the nature of the group's operations and its principal activities is included in the CEO's Report on pages 3 to 8 and in the review of operations in the directors' report on pages 10 to 11, which are not part of this financial report.

The financial report was authorised for issue by the directors on 29 August 2011. The directors have the power to amend and reissue the financial report.

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

STARPHARMA HOLDINGS LIMITED

Income statement

For the year ended 30 June 2011

	Notes	Consolidated 2011 $'000	2010 $'000
Revenue from continuing operations	5	**2,125**	2,103
Other income	5	**1,178**	3,805
Administration expense		**(6,231)**	(6,548)
Research and development expense		**(5,986)**	(5,723)
Finance costs		**(16)**	(18)
Loss before income tax		**(8,930)**	(6,381)
Income tax credit	7	**-**	3
Loss from continuing operations attributable to members of Starpharma Holdings Limited		**(8,930)**	(6,378)

Loss per share for loss from continuing operations attributable to the ordinary equity holders of the company			
Basic loss per share	24	**($0.04)**	($0.03)
Diluted loss per share	24	**($0.04)**	($0.03)

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

Statement of comprehensive income

For the year ended 30 June 2011

		Consolidated	
		2010	2010
	Notes	**$'000**	$'000
Loss for the year		**(8,930)**	(6,378)
Other comprehensive income (loss), net of income tax			
Foreign exchange differences on translation of foreign operations	15	**(2,284)**	(667)
Other comprehensive income (loss), net of income tax		**(2,284)**	(667)
Total comprehensive income (loss) for the year attributable to members of Starpharma Holdings Limited		**(11,214)**	(7,045)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Balance Sheet

As at 30 June 2011

		Consolidated	
		2011	2010
	Notes	**$'000**	$'000
Current Assets			
Cash and cash equivalents	8	**18,918**	22,851
Trade and other receivables	9	**1,023**	1,379
Total current assets		**19,941**	24,230
Non-current assets			
Property, plant and equipment	10	**280**	219
Intangible assets	11	**9,586**	13,118
Total non-current assets		**9,866**	13,337
Total assets		**29,807**	37,567
Current Liabilities			
Trade and other payables	12	**1,227**	1,581
Borrowings	13	**49**	160
Provisions (employee entitlements)		**416**	295
Deferred income		**349**	629
Total current liabilities		**2,041**	2,665
Non-current liabilities			
Borrowings	13	**17**	-
Provisions (employee entitlements)		**56**	58
Total non-current liabilities		**73**	58
Total liabilities		**2,114**	2,723
Net assets		**27,693**	34,844
Equity			
Contributed equity	14	**105,399**	101,766
Reserves	15	**1,022**	2,876
Accumulated losses	16	**(78,728)**	(69,798)
Total equity		**27,693**	34,844

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

Statement of changes in equity

Consolidated

For the year ended 30 June 2011

		2011			
		Contributed capital	Reserves	Accumulated losses	Total equity
	Notes	$'000	$'000	$'000	$'000
Balance at 1 July 2010		101,766	2,876	(69,798)	34,844
Loss for the year		-	-	(8,930)	(8,930)
Other comprehensive income					
Foreign exchange differences on translation of foreign operations	15	-	(2,284)	-	(2,284)
Total comprehensive income (loss) for the year		-	(2,284)	(8,930)	(11,214)
Transactions with owners, recorded directly in equity					
Contributions of equity, net of transaction costs	14	3,609	-	-	3,609
Employee share options plan	15	-	139	-	139
Employee share plans	14	24	-	-	24
Employee performance rights plan	15	-	291	-	291
Total transactions with owners		3,633	430	-	4,063
Balance at 30 June 2011		105,399	1.022	(78,728)	27,693

For the year ended 30 June 2010

		2010			
		Contributed capital	Reserves	Accumulated losses	Total equity
	Notes	$'000	$'000	$'000	$'000
Balance at 1 July 2009		85,640	3,279	(63,420)	25,499
Loss for the year		-	-	(6,378)	(6,378)
Other comprehensive income					
Foreign exchange differences on translation of foreign operations	15	-	(667)	-	(667)
Total comprehensive income (loss) for the year		-	(667)	(6,378)	(7,045)
Transactions with owners, recorded directly in equity					
Contributions of equity, net of transaction costs	14	15,122	-	-	15,122
Employee share options plan	15	-	182	-	182
Employee share plans	14	1,004	-	-	1,004
Employee performance rights plan	15	-	82	-	82
Total transactions with owners		16,126	264	-	16,390
Balance at 30 June 2010		101,766	2,876	(69,798)	34,844

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

Statement of cash flows

For the year ended 30 June 2011

	Notes	Consolidated 2011 $'000	2010 $'000
Cash flow from operating activities			
Receipts from trade and other debtors		**1,391**	1,524
Grant income (inclusive of GST)		**829**	3,719
Payments to suppliers and employees (inclusive of GST)		**(9,793)**	(9,268)
Interest received		**1,113**	418
Interest paid		**(16)**	(18)
Income tax paid		**-**	(5)
Net cash outflows from operating activities	23	**(6,476)**	(3,630)
Cash flow from investing activities			
Receipts from disposals of property, plant and equipment		**-**	23
Payments for property, plant and equipment		**(138)**	(27)
Net cash outflows from investing activities		**(138)**	(4)
Cash flow from financing activities			
Proceeds from issue of shares		**3,609**	15,685
Share issue transaction costs		**-**	(563)
Lease repayments		**(101)**	(157)
Net cash inflows from financing activities		**3,508**	14,965
Net increase (decrease) in cash and cash equivalents held		**(3,106)**	11,331
Cash and cash equivalents at the beginning of the year		**22,851**	11,595
Effects of exchange rate changes on cash and cash equivalents		**(827)**	(75)
Cash and cash equivalents at the end of the year		**18,918**	22,851

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

Notes to the financial statements

30 June 2011

Contents

1. Summary of significant accounting policies

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

(a) Basis of preparation

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

(i) Compliance with IFRS

The consolidated financial statements of the Starpharma Holdings Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2010:

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* – adopted early by Starpharma Holdings Limited in the 2010 financial report
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions*
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues*
- AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19*, and
- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*.

The adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

(iii) Early adoption of standards

The group has elected to apply the following pronouncements to the annual reporting period beginning 1 July 2010:

- AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

This includes applying the revised pronouncement to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. None of the items in the financial statements had to be restated as the result of applying this standard.

(iv) Historical cost convention

These financial statements have been prepared under the historical cost convention.

(v) Critical accounting estimates

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

For the year ended 30 June 2011, the consolidated entity has incurred losses of $8,930,000 (2010: $6,378,000) and experienced net cash outflows of $6,476,000 from operations (2010: $3,630,000), as disclosed in the balance sheet and statement of cash flows, respectively. This is consistent with the consolidated entity's strategic plans and budget estimates, and the directors are satisfied regarding the availability of working capital for the period up to at least August 2012. Accordingly the directors have prepared the financial report on a going concern basis in the belief that the consolidated entity will realise its assets and settle its liabilities and commitments in the normal course of business and for at least the amounts stated in the financial report.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Starpharma Holdings Limited ("company" or "parent entity") as at 30 June 2011 and the results of all subsidiaries for the year then ended. Starpharma Holdings Limited and its subsidiaries together are referred to in this financial report as the group or the consolidated entity.

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

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

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

Investments in subsidiaries are accounted for at cost in the separate financial statements of Starpharma Holdings Limited.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

(iii) Group companies

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

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

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income.

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

(e) Revenue recognition

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

(f) Government Grants

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

(g) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Current and deferred tax balances attributable to amounts recognised directly in other comprehensive income or equity are also recognised directly in other comprehensive income or equity, respectively. Starpharma Holdings Limited and its wholly-owned Australian controlled entities have not implemented the tax consolidation legislation.

(h) Leases

Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases (note 20). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property, or if lower the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in short-term and long term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term. Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (note 20). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease. Lease income from operating leases where the group is a lessor is recognised in income on a straight-line basis over the lease term.

(i) Impairment of assets

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

(j) Cash and cash equivalents

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

(k) Trade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after reporting date. Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the impairment loss is recognised in profit or loss within administration expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(l) Investments and other financial assets

Classification

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

(i) Loans and receivables

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

(m) Property, Plant and Equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred. Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of the residual values, over their estimated useful lives. The expected useful lives are 3 to 15 years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1 (i)). Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in profit or loss.

(n) Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the group between 2 to 6 years, whichever is shorter.

(o) Intangible Assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which goodwill arose, identified according to operating segments (note 4).

(ii) Patents and licences

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

(iii) Research and development

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in profit or loss as an expense when it is incurred. Costs incurred on development activities (relating to the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services) before the start of commercial production or use are recognised as intangible assets when it is probable that the project will, after considering its technically and commercially feasible and adequate resources are available to complete development, generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in profit or loss as an expense as incurred. To date no development costs have been capitalised.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 to 45 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date.

(q) Borrowings

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

(r) Provisions

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

(s) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related services is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Superannuation and Pension Benefits

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

(iv) Employee benefits on-costs

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

(v) Share-based payments

Share-based compensation benefits are offered to the directors and employees via the Starpharma Holdings Limited Employee Share Option Plan ("SPLAM"), a CEO Equity Incentive Plan, an Employee Share Plan ($1,000 Plan), and an Employee Performance Rights Plan. Information relating to these plans is set out in note 25 and section D of the remuneration report under the directors' report.

The fair value of options and performance rights granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options or rights The fair value at grant date is determined using a Black-Scholes model (or variant of) that takes into account any exercise price, the term, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option or share right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term. The fair value excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options or share rights that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options or share rights that are expected to become exercisable. The employee benefit expense recognised in each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

Under the Employee Share Plan ($1,000 Plan) shares are issued to employees for no cash consideration and vest immediately on grant. On this date, the market value of the shares issued is recognised as an employee benefits expense with a corresponding increase in equity.

(vi) Bonus payments

The group recognises a liability and an expense for bonuses based on a formula that takes into consideration performance criteria that has been set. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(vii) Termination benefits

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

(t) Contributed equity

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

(u) Dividends

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

(v) Earnings per share

(i) Basic earnings per share

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

(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 potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

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

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

(x) Rounding of amounts

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

(y) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 *Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period, the group recognised $15,000 of such gains in other comprehensive income. There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The group has not yet decided when to adopt AASB 9.

(ii) Revised AASB 124 *Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards* (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The group will apply the amended standard from 1 July 2011. When the amendments are applied, the group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

(iii) AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement* (effective from 1 January 2011)

In December 2009, the AASB made an amendment to Interpretation 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements.
The group does not make any such prepayments. The amendment is therefore not expected to have any impact on the group's financial statements. The group intends to apply the amendment from 1 July 2011.

(iv) AASB 1053 *Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective from 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Starpharma Holdings Limited is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.

(v) AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011)

Amendments made to AASB 7 *Financial Instruments: Disclosures* in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. They are not expected to have any significant impact on the group's disclosures. The group intends to apply the amendment from 1 July 2011.

(vi) AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets* (effective from 1 January 2012)

In December 2010, the AASB amended AASB 112 *Income Taxes* to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The group will apply the amendment from 1 July 2012. There will be no impact on any of the amounts recognised in the financial statements.

(z) Parent entity financial information

The financial information for the parent entity, Starpharma Holdings Limited, disclosed in note 27 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Starpharma Holdings Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Share-based payments

The grant by the company of options and rights over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

2. Financial risk management

The group's activities expose it to a variety of financial risks; including market risk, credit risk and liquidity risk. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group. The chief executive officer, chief financial officer and company secretary, under the guidance of the Board, have responsibility for the risk management program.

(a) Market risk

(i) Foreign Exchange Risk

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

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

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

	Consolidated	
	2011 US $'000	2010 US $'000
Cash and cash equivalents	**3,492**	3,890
Trade and other receivables	**517**	733
Trade and other payables	**534**	898
Deferred Income	**297**	508

Group Sensitivity

The group is mainly exposed to US dollars. The following table details the group's sensitivity to a 10% increase and decrease in the Australian dollar against the US dollar. A positive number indicates a favourable movement; that is an increase in profit or reduction in the loss.

	Consolidated	
	2011 $'000	2010 $'000
Impact on profit / (loss) on a movement of the US Dollar:		
Australian dollar strengthens (increases) against the US Dollar by 10%	**(269)**	(343)
Australian dollar weakens (decreases) against the US Dollar by 10%	**329**	420

(ii) Cash Flow Interest Rate Risk

The group hold interest bearing assets and therefore the income and operating cash flows are exposed to market interest rates.
At the end of the reporting period, the group had the following at call and short term deposits maturing in of 30 to 180 days.

	Consolidated	
	2011 $'000	2010 $'000
Deposits at call	**16,819**	20,141

Group Sensitivity

At 30 June 2011, if interest rates had changed by 50 basis points either higher or lower from the year end rates with all other variables held constant, group profit for the year would have been $269,000 higher or lower (2010 - change of 50 bps: $103,000 higher/lower) due to either higher or lower interest income from cash or cash equivalents.

(b) Credit risk

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

(c) Liquidity risk

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

(d) Fair value estimation

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

3. Critical accounting estimates and judgments

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

(a) Critical accounting estimates and assumptions

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

i) Amortisation of finite life intangible assets
The group's management determines the estimated life of the patents underlying the core technology of the business and calculates amortisation accordingly. The estimate is based on the period of expected benefit which currently stands at 4–15 years. This could change as a result of technical innovations or competitor actions in response to severe industry cycles. Management will increase amortisation charges when the useful lives are less than their previously estimated lives. The carrying value of intangible assets at 30 June 2011 is $9,586,000 (2010: $13,118,000).

ii) Impairment of Goodwill
The group tests annually whether goodwill has suffered any impairment. In accordance with the accounting policy stated in notes 1(i) and 1(o). Impairment of goodwill is considered based on the fair value less cost to sell of the cash generating units over which the goodwill is allocated. Performing the assessment of fair value less costs to sell requires the use of assumptions. Refer to note 11 for details of these assumptions.

iii) Income Taxes
The group is subject to income taxes in Australia and the United States of America. There are transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination may be uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made. The group has recognised deferred tax assets relating to carried forward losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped.

(b) Critical accounting judgments in applying accounting policies

i) Fair value of intellectual property in purchase price allocation of subsidiary
The group engaged a professional firm in February 2007 to undertake a valuation of the fair value of the intellectual property assets recognised on acquisition of the remaining share of the US based associate Dendritic Nanotechnologies Inc ("DNT"). The methodology used was a discounted cash flow analysis based on the future potential revenue derived from the intellectual property to support the fair value of the asset acquired. To allocate the purchase price of the business combination, management attributed a value of $14.9 million being the mid-point of the experts' valuation range.

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

4. Segment information

Management has determined the operating segments based on separate reportable segments to the Chief Executive Officer, who is the chief operating decision maker. There are two reportable segments within the group, with companies operating across two jurisdictions - in Australia and United States of America ("USA"). Dendritic Nanotechnologies Inc. ("DNT") is domiciled in the USA and it has been determined that on the basis of internal reporting and monitoring of the USA operations. The principal activities of the group consist of development and commercialisation of dendrimer products for pharmaceutical, life-science and other applications.

Reportable segments

2011	Australia $'000	USA $'000	Inter-segment Eliminations $'000	**Total $'000**
Revenue and other income	3,192	659	(548)	**3,303**
Expenses	(10,772)	(2,073)	612	**(12,233)**
Loss before income tax	(7,580)	(1,414)	64	**(8,930)**
Segment net assets	24,096	3,815	(218)	**27,693**

2010	Australia $'000	USA $'000	Inter-segment Eliminations $'000	**Total $'000**
Revenue and other income	5,363	1,160	(615)	**5,908**
Expenses	(10,244)	(2,639)	594	**(12,289)**
Loss before income tax	(4,881)	(1,479)	(21)	**(6,381)**
Segment net assets	28,172	6,701	(29)	**34,844**

Sales between segments are carried out at arm's length and are eliminated upon consolidation. The revenue from external parties reported to the board is measured in a manner consistent with that in the income statement.

5. Revenue and other income

	Consolidated	
Revenue and other income	**2011 $'000**	2010 $'000
Royalty, customer & licence revenue	**1,121**	1,404
Interest revenue	**981**	699
Other revenue	**23**	–
Total revenue	**2,125**	2,103
Australian Government grants	**92**	167
USA Government grants	**1,086**	3,638
Total other income	**1,178**	3,805
Total revenue and other income	**3,303**	5,908

Australian Government grants consisted of export market development grants of $86,000 (2010: $161,000) and the Victorian Government science and technology international partnering program $6,000 (2010: Nil). USA Government grants consisted of grants from the National Institutes of Health, USA Department of Health. With the exception of normal audit requirements, there are no unfulfilled conditions or other contingencies attached to the portions of Government grant and contract incomes recognised above. The group did not benefit directly from any other form of government assistance.

6. Expenses

	Consolidated	
	2011 $'000	2010 $'000
Loss from continuing operations before income tax expense includes the following items:		
Depreciation	**172**	227
Amortisation	**1,360**	1,470
Rental expense on operating leases	**285**	341
Defined contribution superannuation expense	**426**	383

7. Income tax expense

	Consolidated	
	2011 $'000	2010 $'000
(a) Income tax expense/(credit)		
Current Tax	**–**	5
Deferred Tax	**–**	(8)
	–	(3)
Income tax expense is attributable to:		
Profit from continuing operations	**–**	(3)
Profit from discontinued operations	**–**	–
Aggregate income tax credit	**–**	(3)
Deferred income tax credit (revenue) / expense included in income tax credit comprises:		
(Decrease) in deferred tax liabilities	**–**	–
	–	–
(b) Numerical reconciliation to income tax credit prima facie tax payable		
Loss from continuing operations before income tax	**(8,930)**	(6,380)
Tax at the Australian tax rate of 30% (2009: 30%)	**(2,679)**	(1,914)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
Share-based payments	**136**	380
Difference in overseas tax rates	**51**	47
Future income tax benefits not brought to account	**2,492**	1,484
Income tax credit	**–**	(3)

(c) Tax losses

Unused tax losses for which no deferred tax asset has been recognised (as recovery is currently not probable)	**67,575**	55,179
Potential tax benefit	**20,445**	16,554

(d) Unrecognised temporary differences

Temporary differences for which no deferred tax asset has been recognised as recoverability is not probable	**1,140**	694
Unrecognised deferred tax relating to the temporary differences	**342**	208

Potential future income tax benefits attributable to tax losses carried forward have not been brought to account at 30 June 2011 because the directors do not believe that it is appropriate to regard realisation of the future income tax benefit as probable. Similarly, future benefits attributable to net temporary differences have not been brought to account as the directors do not regard the realisation of such benefits as probable.

Realisation of the benefit of tax losses would be subject to the group satisfying the conditions for deductibility imposed by tax legislation and no subsequent changes in tax legislation adversely affecting the group. The group is making an assessment as to the satisfaction of deductibility conditions at 30 June 2011 which it believes will be satisfied.

8. Current assets – Cash and cash equivalents

	Consolidated	
	2011 $'000	2010 $'000
Cash at bank and on hand	**2,099**	2,710
Deposits at call	**16,819**	20,141
	18,918	22,851

Cash at bank and on hand

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

Deposits at call

The deposits are bearing floating interest rates ranging from 0.05% to 6.19% (2010: 0.15% to 6.00%). These deposits are of 30-180 day maturities.

Cash not available

There is $186,000 of cash not available for use due to restrictions associated with a finance lease and credit card facility which is guaranteed by term deposits (2010: $165,000).

Interest rate risk

With the exception of loans to controlled entities, current receivables are non-interest bearing.

30 June 2011		Floating Interest rate	Fixed interest maturing								
	Notes	$'000	1 year or less $'000	1 to 2 years $'000	2 to 3 years $'000	3 to 4 years $'000	4 to 5 years $'000	More than 5 years $'000	Non-interest bearing $'000	Total $'000	Contractual cash flows
Financial Assets											
Cash and deposits	8	1,584	15,858	–	–	–	–	–	1,476	18,918	N/A
Receivables	9	–	–	–	–	–	–	–	1,023	1,023	1,023
		1,584	15,858	–	–	–	–	–	2,499	19,941	1,023
Weighted average interest rate		*3.6%*	*5.5%*	*–%*	*–%*	*–%*	*–%*	*–%*	*–%*		
Financial Liabilities											
Payables and provisions	12	–	–	–	–	–	–	–	1,699	1,699	1,699
Borrowings	13	–	66	–	–	–	–	–	–	66	66
Deferred income		–	–	–	–	–	–	–	349	349	349
		–	66	–	–	–	–	–	2,048	2,114	2,114
Weighted average interest rate		*–%*	*10.1%*	*–%*	*–%*	*–%*	*–%*	*–%*	*–%*		

30 June 2010		Floating Interest rate	Fixed interest maturing								
	Notes	$'000	1 year or less $'000	1 to 2 years $'000	2 to 3 years $'000	3 to 4 years $'000	4 to 5 years $'000	More than 5 years $'000	Non-interest bearing $'000	Total $'000	Contractual cash flows
Financial Assets											
Cash and deposits	8	1,280	19,339	–	–	–	–	–	2,232	22,851	N/A
Receivables	9	–	–	–	–	–	–	–	1,379	1,379	1,379
		1,280	19,339	–	–	–	–	–	3,611	24,230	1,379
Weighted average interest rate		*3.1%*	*5.4%*	*–%*	*–%*	*–%*	*–%*	*–%*	*–%*		
Financial Liabilities											
Payables and provisions	12	–	–	–	–	–	–	–	1,934	1,934	1,934
Borrowings	13	–	160	–	–	–	–	–	–	160	160
Deferred income		–	–	–	–	–	–	–	629	629	629
		–	160	–	–	–	–	–	2,563	2,723	2,723
Weighted average interest rate		*–%*	*7.8%*	*–%*	*–%*	*–%*	*–%*	*–%*	*–%*		

9. Current assets – Trade and other receivables

	Consolidated	
	2011 $'000	2010 $'000
Trade and grant receivables	**604**	932
Interest receivables	**183**	315
Prepayments	**153**	56
Other receivables	**83**	76
	1,023	1,379

Trade and grant receivables

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

Credit risk

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

Impaired receivables

As at 30 June 2011, trade and grant receivables of $80,000 (2010: $140,000) were past due. These relate to grant funding and customers for whom there is no recent history of default. No receivables are considered impaired at 30 June 2011 (2010: nil) other than from subsidiaries within the group.

Other receivables

Other receivables comprise sundry debtors and GST claimable and are subject to normal terms of settlement within 30 to 90 days.

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

Consolidated	Plant and Equipment $'000	Leasehold improvements $'000	Plant and Equipment under finance lease $'000	Total Plant and Equipment $'000
At 30 June 2009				
Cost	2,337	1,141	294	3,772
Accumulated depreciation and amortisation	(2,112)	(1,133)	(80)	(3,325)
Net book amount	225	8	214	447
Year ended 30 June 2010				
Opening net book amount	225	8	214	447
Exchange differences	(4)	–	–	(4)
Additions	26	–	–	26
Disposals	(24)	–	–	(24)
Depreciation and amortisation	(85)	(3)	(138)	(226)
Closing net book amount	138	5	76	219

At 30 June 2010				
Cost	2,246	1,141	614	4,001
Accumulated depreciation and amortisation	(2,108)	(1,136)	(538)	(3,782)
Net book amount	138	5	76	219

Year ended 30 June 2011				
Opening net book amount	138	5	76	219
Exchange differences	(2)	–	–	(2)
Additions	102	44	96	242
Disposals	(7)	–	–	(7)
Depreciation and amortisation	(61)	(11)	(100)	(172)
Closing net book amount	170	38	72	280

At 30 June 2011				
Cost	2,042	1,185	272	3,499
Accumulated depreciation and amortisation	(1,872)	(1,147)	(200)	(3,219)
Net book amount	170	38	72	280

11. Non-current assets – Intangible assets

Consolidated	Patents & Licences $'000	Goodwill $'000	Total Intangibles $'000
At 30 June 2009			
Cost	18,244	1,835	20,079
Accumulated depreciation and amortisation	(4,855)	–	(4,855)
Net book amount	13,389	1,835	15,224
Year ended 30 June 2010			
Opening net book amount	13,389	1,835	15,224
Exchange differences	(548)	(88)	(636)
Depreciation and amortisation	(1,470)	–	(1,470)
Closing net book amount	11,371	1,747	13,118
At 30 June 2010			
Cost	17,578	1,747	19,325
Accumulated depreciation and amortisation	(6,207)	–	(6,207)
Net book amount	11,371	1,747	13,118

Year ended 30 June 2011			
Opening net book amount	11,371	1,747	13,118
Exchange differences	(1,812)	(360)	(2,172)
Depreciation and amortisation	(1,360)	–	(1,360)
Closing net book amount	8,199	1,387	9,586

At 30 June 2011			
Cost	14,854	1,387	16,241
Accumulated depreciation and amortisation	(6,655)	–	(6,655)
Net book amount	8,199	1,387	9,586

(a) Impairment tests for goodwill

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

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

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

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

The market capitalisation of the Starpharma group is used to determine an approximation of the fair value less costs to sell of the two CGUs which make up the group. Given the excess of the market capitalisation of Starpharma Holdings Limited over the carrying value of total assets (including goodwill) at 30 June 2011, goodwill is not considered to be impaired at the end of the reporting period.

(c) Impairment tests for finite life intangible assets

Identifiable intangible assets with finite lives are carried at cost less accumulated amortisation and adjusted for any accumulated impairment loss. The directors have assessed these assets for indicators of impairment at 30 June 2011 and determined that there is no indication that the asset is impaired.

12. Current liabilities – Trade and other payables

	Consolidated	
	2011 $'000	2010 $'000
Trade payables	**940**	1,346
Other payables	**287**	235
	1,227	1,581

13. Current and Non-current liabilities – Borrowings

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default. The carrying value of leased assets is $66,000 at 30 June 2011 (2010: $160,000).

2011		**Floating Interest rate**				**Fixed interest rate**			
	Notes		1 year or less $'000	Over 1–2 years $'000	Over 2–3 years $'000	Over 3–4 years $'000	Over 4–5 years $'000	Over 5 years $'000	Total $'000
Lease Liabilities	20	–	49	17	–	–	–	–	66
Weighted average interest rate		*–%*	*10.1%*	*10.1%*	*–%*	*–%*	*–%*	*–%*	

2010		**Floating Interest rate**				**Fixed interest rate**			
	Notes		1 year or less $'000	Over 1–2 years $'000	Over 2–3 years $'000	Over 3–4 years $'000	Over 4–5 years $'000	Over 5 years $'000	Total $'000
Lease Liabilities	20	–	160	–	–	–	–	–	160
Weighted average interest rate		*–%*	*7.8%*	*–%*	*–%*	*–%*	*–%*	*–%*	

14. Contributed equity

(a) Share Capital

	Consolidated		**Consolidated**	
	2011 Shares	2010 Shares	**2011 $'000**	2010 $'000
Share Capital				
Ordinary shares – fully paid	**247,743,578**	238,842,208	**105,399**	101,766

(b) Movements in ordinary share capital

Date	**Details**	**Number of shares**	**Issue Price**	**$'000**
01 Jul 2009		207,218,113		85,640
24 Nov 2009	Share placement	30,000,000	$0.52	15,600
	less transaction costs			(563)
25 Jan 2010	Employee share plan ($1,000) issue	25,524	$0.70	18
29 Jan 2010	Proceeds on exercise of employee options	10,000	$0.50	5
11 Feb 2010	Proceeds on exercise of employee options	60,000	$0.50	30
22 Feb 2010	Proceeds on exercise of employee options	40,000	$0.50	20
25 Feb 2010	Proceeds on exercise of employee options	20,000	$0.50	10
31 Mar 2010	CEO equity incentive plan share issue	1,428,571	$0.69	986
24 Jun 2010	Proceeds on exercise of employee options	40,000	$0.50	20
	Balance at 30 June 2010	238,842,208		101,766

Date	Details	Number of shares	Issue Price	$'000
9 Sep 2010	Proceeds on exercise of employee options	250,000	$0.29	72
24 Sep 2010	Proceeds on exercise of employee options	280,000	$0.50	140
13 Oct 2010	Proceeds on exercise of employee options	50,000	$0.29	14
25 Oct 2010	Proceeds on exercise of employee options	50,000	$0.29	14
3 Nov 2010	Proceeds on exercise of employee options	172,000	$0.35	60
10 Nov 2010	Proceeds on exercise of employee options	350,000	$0.50	176
11 Nov 2010	Proceeds on exercise of employee options	150,000	$0.50	75
17 Nov 2010	Proceeds on exercise of employee options	290,000	$0.39	114
17 Nov 2010	Proceeds on exercise of options	20,000	$0.52	10
26 Nov 2010	Proceeds on exercise of employee options	168,000	$0.48	81
2 Dec 2010	Proceeds on exercise of options	600,000	$0.43	261
10 Dec 2010	Proceeds on exercise of employee options	175,000	$0.41	72
20 Dec 2010	Proceeds on exercise of employee options	30,000	$0.29	9
24 Dec 2010	Proceeds on exercise of options	750,000	$0.43	327
10 Jan 2011	CEO equity incentive plan share issue	487,500	$ –	–
1 Feb 2011	Employee share plan ($1,000) issue	28,560	$0.84	24
3 Feb 2011	Proceeds on exercise of options	600,000	$0.43	261
14 Feb 2011	Proceeds on exercise of options	600,000	$0.43	261
17 Feb 2011	Proceeds on exercise of employee options	150,000	$0.43	65
7 Mar 2011	Proceeds on exercise of options	639,453	$0.43	278
22 Mar 2011	Proceeds on exercise of employee options	210,000	$0.43	95
28 Mar 2011	Proceeds on exercise of options	1,010,000	$0.43	439
4 Apr 2011	Proceeds on exercise of options	1,500,000	$0.43	652
19 May 2011	Proceeds on exercise of employee options	158,000	$0.34	54
14 Jun 2011	Proceeds on exercise of options	182,857	$0.43	79
	Balance at 30 June 2011	**247,743,578**		**105,399**

(c) Ordinary shares

As at 30 June 2011 there were 247,743,578 issued ordinary shares. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. There is no current on-market share buy-back.

(d) Employee Share Plan ($1,000 Plan)

Information relating to the Employee Share Plan, including details of shares issued under the plan, is set out in note 25.

(e) CEO Equity Incentive Plan

Information relating to the CEO Equity Incentive Plan, including details of shares issued under the plan, is set out in note 25.

(f) Employee Performance Rights Plan

Information relating to the Employee Performance Rights Plan, including details of rights issued under the plan, is set out in note 25.

(g) Options

Information relating to the Starpharma Holdings Limited Employee Share Option Plan and Individual option deeds, including details of options issued, exercised and expired during the financial year and options outstanding at the end of the financial year are set out in note 25.

(h) Capital risk management

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

15. Reserves

(a) Reserves

	Consolidated	
	2011 $'000	2010 $'000
Share-based payments reserve	**2,842**	2,412
Foreign currency translation reserve	**(4,035)**	(1,751)
Asset revaluation reserve	**2,215**	2,215
	1,022	2,876

(b) Movement in reserves

	Consolidated	
Share-based payments reserve	**2011 $'000**	2010 $'000
Balance at 1 July	**2,412**	2,148
Share option expense	**139**	182
Performance right expense	**291**	82
Balance at 30 June	**2,842**	2,412
Foreign currency translation reserve		
Balance at 1 July	**(1,751)**	(1,084)
Currency translation differences arising during the year	**(2,284)**	(667)
Balance at 30 June	**(4,035)**	(1,751)

(c) Nature and purpose of reserves

(i) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options and performance rights granted.

(ii) Foreign currency translation reserve

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

(iii) Asset revaluation reserve

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

16. Accumulated Losses

	Consolidated 2011 $'000	Consolidated 2010 $'000
Accumulated losses balance at 1 July	**(69,798)**	(63,420)
Net loss for the year	**(8,930)**	(6,378)
Accumulated losses balance at 30 June	**(78,728)**	(69,798)

17. Key management personnel disclosures

(a) Key management personnel compensation

	Consolidated 2011 $'000	Consolidated 2010 $'000
Short-term employee benefits	**1,826**	1,550
Post-employment benefits	**255**	267
Other long term benefits	**39**	31
Termination benefits	**–**	–
Share-based payments	**324**	1,185
	2,444	3,033

Detailed remuneration disclosures are provided in sections A-D of the remuneration report on pages 15 to 24.

(b) Equity instrument disclosures relating to key management personnel

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

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report on pages 20 to 24.

Option holdings

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

2011 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year[#]	Balance at the end of the year	Vested and exercisable at the end of the year	Unvested
Directors of Starpharma Holdings Limited							
J K Fairley	650,000	–	350,000	(300,000)	–	–	–
Other key management personnel of the group							
B P Rogers	400,000	–	100,000	(100,000)	200,000	200,000	–
J R Paull	475,000	–	350,000	–	125,000	125,000	–
C P Barrett	575,000	–	175,000	(200,000)	200,000	200,000	–
N J Baade	425,000	–	300,000	–	125,000	125,000	–
D J Owen	425,000	–	200,000	–	225,000	225,000	–
M L McColl	–	–	–	–	–	–	–

STARPHARMA HOLDINGS LIMITED

2010 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year#	Balance at the end of the year	Vested and exercisable at the end of the year	Unvested
Directors of Starpharma Holdings Limited							
J K Fairley	650,000	–	–	–	650,000	650,000	–
Other key management personnel of the group							
B P Rogers	400,000	–	–	–	400,000	200,000	200,000
J R Paull	475,000	–	–	–	475,000	200,000	275,000
C P Barrett	575,000	–	–	–	575,000	300,000	275,000
N J Baade	425,000	–	–	–	425,000	200,000	225,000
D J Owen	425,000	–	–	–	425,000	200,000	225,000

Other Changes during the year relate to the expiry of options.

Performance rights holdings

The numbers of rights over ordinary shares in the company held during the financial year by each director of Starpharma Holdings Limited and other key management personnel of the group, including their personally related parties, are set out below. Except for J K Fairley, no other director held share rights in the current or prior year. J K Fairley was granted 750,000 rights to ordinary shares as part of a CEO equity incentive plan on 31 March 2010. The granting of these performance rights was approved by shareholders on 25 March 2010.

2011 Name	Balance at the start of the year	Granted during the year as compensation	Vested during the year	Other changes during the year#	Balance at the end of the year	Vested and exercisable at the end of the year	Unvested
Directors of Starpharma Holdings Limited							
J K Fairley	750,000	–	487,500	(262,500)	–	–	–
Other key management personnel of the group							
B P Rogers	–	65,000	–	–	65,000	–	65,000
J R Paull	–	80,000	–	–	80,000	–	80,000
C P Barrett	–	80,000	–	–	80,000	–	80,000
N J Baade	–	80,000	–	–	80,000	–	80,000
D J Owen	–	80,000	–	–	80,000	–	80,000
M L McColl	–	80,000	–	–	80,000	–	80,000

Other Changes during the year relate to the forfeit of performance rights

2010 Name	Balance at the start of the year	Granted during the year as compensation	Vested during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year	Unvested
Directors of Starpharma Holdings Limited							
J K Fairley	–	750,000	–	–	750,000	–	750,000
Other key management personnel of the group							
B P Rogers	–	–	–	–	–	–	–
J R Paull	–	–	–	–	–	–	–
C P Barrett	–	–	–	–	–	–	–
N J Baade	–	–	–	–	–	–	–
D J Owen	–	–	–	–	–	–	–

Share holdings
The numbers of ordinary shares in the company held during the financial year by each director of Starpharma Holdings Limited and other key management personnel of the group, including their personally related parties, are set out below. There were no shares received during the prior reporting period on the exercise of options.

Key management personnel of the group, excluding directors, were eligible to participate in the Employee Share Plan ($1,000 Plan). Shares to the value of $1,000 where granted to Australian-based permanent employees under the plan during the current and prior year.

On 10 January 2011, 487,500 of shares were issued to J K Fairley as part of the CEO equity incentive plan based on performance achievements to 31 December 2010. On 31 March 2010, J K Fairley was granted 1,428,571 fully paid ordinary shares as part of the CEO equity incentive plan. The granting of shares and rights was approved by shareholders on 25 March 2010.

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

2011 Name	Balance at the start of the year	Granted during the year as compensation	On exercise of share options during the year	On vesting of performance rights during the year	Other changes during the year	Balance at the end of the year
Directors of Starpharma Holdings Limited						
Ordinary Shares						
P T Bartels	129,804	–	–	–	–	129,804
J K Fairley	1,482,321	–	350,000	487,500	(500,000)	1,819,821
J W Raff[1]	7,280,777	–	–	–	–	7,280,777
R Dobinson	-	–	–	–	–	–
P J Jenkins	1,426,000	–	–	–	–	1,426,000
R A Hazleton	142,616	–	–	–	–	142,616
Other key management personnel of the group						
Ordinary Shares						
B P Rogers	67,040	1,190	100,000	–	(126,775)	41,455
J R Paull	1,418	1,190	350,000	–	(340,000)	12,608
C P Barrett	1,418	1,190	175,000	–	(175,000)	2,608
N J Baade	1,418	1,190	300,000	–	(170,000)	132,608
D J Owen	1,418	1,190	200,000	–	(150,000)	52,608
M L McColl	–	1,190	–	–	–	1,190

[1] Resigned 17 June 2011

2010 Name	Balance at the start of the year	Granted during the year as compensation	Other changes during the year	Balance at the end of the year
Directors of Starpharma Holdings Limited				
Ordinary Shares				
P T Bartels	129,804	–	–	129,804
J K Fairley	53,750	1,428,571	–	1,482,321
J W Raff	7,280,777	–	–	7,280,777
R Dobinson	-	–		-
P J Jenkins	1,416,000	–	10,000	1,426,000
R A Hazleton	142,616	–	-	142,616
Other key management personnel of the group				
Ordinary Shares				
B P Rogers	65,622	1,418	–	67,040
J R Paull	–	1,418	–	1,418
C P Barrett	–	1,418	–	1,418
N J Baade	–	1,418	–	1,418
D J Owen	–	1,418	–	1,418

18. Remuneration of auditors

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

	Consolidated	
	2011 $	2010 $
(a) Statutory audit services		
Audit or review of financial reports of the entity or any entity in the consolidated entity		
PricewaterhouseCoopers	**113,000**	124,500
Other auditors of controlled entities	**–**	–
Total remuneration for statutory audit services	**113,000**	124,500
(b) Other audit services		
Other audit services: Grant reviews & program audits		
PricewaterhouseCoopers	**18,000**	27,300
Total remuneration for other audit services	**18,000**	27,300
Total remuneration of auditors	**131,000**	151,800

19. Contingencies

The Company has no contingent assets or liabilities at 30 June 2011 (2010: nil).

20. Commitments

(a) Capital Commitments

There is no capital expenditure contracted for, not recognised as liabilities at the reporting date (2010: nil).

(b) Lease Commitments

	Consolidated	
	2011 $'000	2010 $'000
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Not later than one year	**335**	452
Later than one year and not later than five years	**355**	59
Later than five years	**–**	–
	690	511
Representing:		
Cancellable operating leases	**624**	351
Non-cancellable finance lease	**71**	164
Future finance charges on finance leases	**(5)**	(4)
	690	511

Operating leases

The group leases laboratory and offices under a lease until 31 August 2013 and leases various plant and equipment under cancellable operating leases.

	Consolidated	
	2011 $'000	2010 $'000
Commitments for minimum lease payments in relation to cancellable operating leases are payable as follows:		
Not later than one year	**286**	293
Later than one year and not later than five years	**338**	58
Later than five years	**–**	–
Representing cancellable operating leases	**624**	351

Finance Leases

The group leases plant and equipment with a carrying amount of $66,000 (2010: $160,000) under a finance leases expiring within two years.

		Consolidated	
Commitments in relation to finance leases are payable as follows:	Notes	**2011 $'000**	2010 $'000
Not later than one year		**53**	164
Later than one year and not later than five years		**18**	–
Later than five years		**–**	–
Minimum lease payments		**71**	164
Future finance charges		**(5)**	(4)
Recognised as a liability		**66**	160

Representing finance lease liabilities:			
Current	13	**49**	160
Non-Current	13	**17**	–
		66	160

The weighted average interest rate implicit in the lease is 10.1% (2010: 7.8%).

(c) Expenditure Commitments

The group has entered into various agreements for research and development services. These agreements have typical termination provisions to limit the commitment to the time and materials expended at termination, or up to an approved work order amount.

(d) Termination Commitments

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

21. Subsidiaries

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

			Equity Holding	
Name of entity	Country of Incorporation	Class of Shares	**2011 %**	2010 %
Starpharma Pty Limited	Australia	Ordinary	**100.00%**	100.00%
Angiostar Pty Limited	Australia	Ordinary	**100.00%**	100.00%
Viralstar Pty Limited	Australia	Ordinary	**100.00%**	100.00%
Dendritic Nanotechnologies Inc.	USA	Ordinary	**100.00%**	100.00%

22. Events occurring after the balance sheet date

On 17 August 2011, Starpharma announced two important developments in relation to the commercialisation of its VivaGel®-coated condom.

1. *Starpharma terminates condom coating agreement with Reckitt Benckiser*

Due to the failure to achieve satisfactory progress in relation to certain commercialisation milestones for the VivaGel®-coated condom, Starpharma's Board has taken the decision to terminate the Licence granted to Reckitt Benckiser (RB; formerly with SSL International plc) to commercialise the VivaGel®-coated condom and all of RB's rights to the product, effective immediately.

2. *Starpharma executes condom coating agreement with Ansell*

Starpharma has executed a Licence Agreement with Ansell Limited (ASX:ANN) giving Ansell marketing rights to the VivaGel®-coated condom. The Agreement covers marketing rights to the coated condom in countries which exclude Japan and a number of Asian markets.

Under the agreement Ansell will pay Starpharma royalties on sales of VivaGel®-coated condoms and will support registration and other commercialisation costs. Ansell is also responsible for manufacturing the VivaGel®-coated condom and marketing of the product, which will include the VivaGel® brand together with the respective Ansell brand.

There are no other significant events occurring since 30 June 2011 that have significantly affected or may significantly affect the operations of the group, the results of those operations, or the state of the group.

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

	Consolidated	
	2011 $'000	2010 $'000
Operating loss after tax:	**(8,930)**	(6,378)
Depreciation and amortisation	**1,532**	1,697
Foreign exchange (gains) / losses	**827**	75
Non-cash employee benefits: share-based payments	**456**	1,268
Change in operating assets and liabilities, net of effects of acquisitions and disposals of entities:		
Decrease in receivables and other assets	**357**	202
Increase (decrease) increase in trade creditors	**(354)**	(183)
Increase in employee provisions	**120**	15
Decrease in deferred income	**(477)**	(326)
Gain (loss) on sale of property, plant and equipment	**(7)**	–
Net cash outflows from operating activities	**(6,476)**	(3,630)

24. Earnings per share

	Consolidated	
	2011 $	2010 $
Basic loss per share	**(0.04)**	(0.03)
Diluted loss per share	**(0.04)**	(0.03)
Net loss attributable to members of Starpharma Holdings Ltd used as the numerator in calculating diluted and basic earnings per share ($'000)	**(8,930)**	(6,378)
Weighted average number of ordinary shares outstanding during the year used as the denominator in calculating diluted and basic earnings per share	**242,556,106**	225,551,542

25. Share-based payments

Options

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

(b) Individual Option Deeds
The company infrequently issues options to key consultants of the company. The objective of the option issues is to assist in the reward, retention and motivation of consultants of the company. Options are granted for no consideration, usually in lieu of some

proportion of cash compensation. Options are normally granted for a two to five year period, with various exercisable dates. Options granted carry no dividend or voting rights. Each option is personal to the participant and is not transferable, transmissible, assignable or chargeable, except with the written consent of the remuneration and nomination committee.

(c) Options Attached to a Share Placement

The company issued 7,567,119 unlisted options attached to a share placement in August 2007. The options have an exercise price of $0.4346 per option with an expiry date of 21 August 2012. Options granted carry no dividend or voting rights.

Set out below are summaries of options under the schemes:

2011

Grant Date	Expiry Date	Exercise Price	Balance at start of the year	Exercised during the year	Forfeited during the year	Expired during the year	Balance at end of the year	Exercisable at end of the year
		$	Number	Number	Number	Number	Number	Number
Consolidated and parent entity								
4 Jul 2005 [a]	4 Jul 2010	$0.94	300,000	–	–	300,000	–	–
18 Jul 2005 [a]	18 Jul 2010	$0.94	100,000	–	–	100,000	–	–
6 Oct 2006 [a]	6 Oct 2010	$0.50	898,000	280,000	–	618,000	–	–
2 Jan 2007 [b]	2 Jan 2011	$0.52	20,000	20,000	–	–	–	–
4 Apr 2007 [a]	4 Apr 2011	$0.50	590,000	590,000	–	–	–	–
21 Aug 2007 [c]	22 Aug 2012	$0.43	7,567,119	5,882,310	–	–	1,684,809	1,684,809
31 Oct 2007 [a]	7 Aug 2011	$0.50	370,000	300,000	40,000	–	30,000	30,000
14 Nov 2007 [a]	4 Apr 2011	$0.50	150,000	150,000	–	–	–	–
14 Nov 2007 [a]	8 Aug 2011	$0.50	200,000	200,000	–	–	–	–
1 Jan 2009 [a]	28 Aug 2012	$0.29	1,358,000	963,000	–	–	395,000	395,000
1 Jan 2009 [b]	28 Aug 2012	$0.29	20,000	–	–	–	20,000	20,000
29 Jun 2009 [a]	28 Jun 2014	$0.37	1,144,000	–	30,000	–	1,114,000	1,114,000
Total			12,717,119	8,385,310	70,000	1,018,000	3,243,809	3,243,809
Weighted average exercise price			$0.44	$0.43	$0.45	$0.67	$0.39	$0.39

[a] Options granted under the Employee Option Plan.
[b] Options granted under individual option deeds.
[c] Options granted under a share placement.

No options were granted in the current year.

2010

Grant Date	Expiry Date	Exercise Price	Balance at start of the year	Exercised during the year	Forfeited during the year	Expired during the year	Balance at end of the year	Exercisable at end of the year
		$	Number	Number	Number	Number	Number	Number
Consolidated and parent entity								
31 Dec 2004 [a]	31 Dec 2009	$0.94	86,000	–	–	86,000	–	–
4 Jul 2005 [a]	4 Jul 2010	$0.94	300,000	–	–	–	300,000	300,000
18 Jul 2005 [a]	18 Jul 2010	$0.94	100,000	–	–	–	100,000	100,000
6 Oct 2006 [a]	6 Oct 2010	$0.50	1,038,000	130,000	10,000	–	898,000	898,000
2 Jan 2007 [b]	2 Jan 2011	$0.52	20,000	–	–	–	20,000	20,000
4 Apr 2007 [a]	4 Apr 2011	$0.50	590,000	–	–	–	590,000	590,000
21 Aug 2007 [c]	22 Aug 2012	$0.43	7,567,119	–	–	–	7,567,119	7,567,119
12 Oct 2007 [b]	31 Jul 2009	$0.43	10,000	–	–	10,000	–	–
12 Oct 2007 [b]	31 Aug 2009	$0.43	10,000	–	–	10,000	–	–
31 Oct 2007 [a]	7 Aug 2011	$0.50	550,000	40,000	140,000	–	370,000	370,000
14 Nov 2007 [a]	4 Apr 2011	$0.50	150,000	–	–	–	150,000	150,000
14 Nov 2007 [a]	8 Aug 2011	$0.50	200,000	–	–	–	200,000	200,000
1 Jan 2009 [a]	28 Aug 2012	$0.29	1,578,000	–	220,000	–	1,358,000	–
1 Jan 2009 [b]	28 Aug 2012	$0.29	20,000	–	–	–	20,000	–
29 Jun 2009 [a]	28 Jun 2014	$0.37	1,464,000	–	320,000	–	1,144,000	–
Total			13,683,119	170,000	690,000	106,000	12,717,119	10,195,119
Weighted average exercise price			$0.44	$0.50	$0.37	$0.76	$0.44	$0.47

[a] Options granted under the Employee Option Plan.
[b] Options granted under individual option deeds.
[c] Options granted under a share placement.

No options were granted in the prior year.

The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2011 was $0.43 (2010: $0.50).

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.77 years (2010: 1.98 years).

Where options are issued to employees of subsidiaries within the group, the subsidiaries compensate Starpharma Holdings Limited for the amount recognised as expense in relation to these options.

(d) Fair value of options granted

There were no options granted in the current or prior year. The fair value at grant date of options granted in earlier years were independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option. The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information. Options are granted for no consideration, and have varying exercise and expiry dates.

Shares

(a) Employee Share Plan ($1,000 Plan)

All executives and staff, excluding directors, are eligible to participate in the Starpharma Employee Share Plan ($1,000 Plan). The objective of the $1,000 Plan is to assist in the reward, retention and motivation of employees of the group. An annual allocation of up to $1,000 of shares may be granted and taxed on a concessional basis. Shares are granted under the $1,000 Plan for no consideration and are escrowed for 3 years while participants are employed by the group.

(b) Fair value of shares granted
The weighted average assessed fair value at grant date of employee shares granted during the year ended 30 June 2011 was $0.84 (2010: $0.69 per share). The fair value at grant date is determined by the share price on the date of grant. Employee shares were granted for no consideration.

Information used in assessing the fair value of shares granted during the year ended 30 June 2011 is as follows:

Share grant date	**1 February 2011**
Number of shares granted	28,560
Share price at grant date	$0.84
Assessed fair value	$0.84

Information used in assessing the fair value of shares granted during the year ended 30 June 2010 is as follows:

Share grant date	**24 Jan 2010**	**31 March 2010[1]**
Number of shares granted	25,524	1,428,571
Share price at grant date	$0.70	$0.69
Assessed fair value	$0.70	$0.69

[1] Shares issued under the CEO Equity Incentive Plan.

Employee Performance Rights

(a) CEO Equity Incentive Plan
Details are provided in section D of the remuneration report.

(b) Employee Performance Rights Plan
In 2010 the Board approved the introduction of the Starpharma Employee Performance Rights Plan. All executives and staff are eligible to participate in the Plan. The Plan allows for the issue of performance rights (being rights to receive fully paid ordinary shares subject to continued employment with the Company and the satisfaction of certain performance hurdles over a specified period). A further holding lock period may also be applied to restrict disposal after the vesting date. Performance rights are granted under the Plan for no consideration. The objective of the Plan is to assist in the recruitment, reward, retention and motivation of employees of the company.

(c) Fair value of performance rights granted
The weighted average assessed fair value at grant date of performance rights granted during the year ended 30 June 2011 was $0.39 per right (2010: $0.33). There were 830,800 performance rights granted in the current year (2010: 750,000). The estimated fair value at grant date is determined using a modified Black-Scholes option pricing model that takes into account the exercise price, the performance measure, the term of the right, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option. The expected price volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information.

Information used in assessing the fair value of performance rights granted during the year ended 30 June 2011 is as follows:

Right grant date	**2 September 2010**
Number of rights granted	830,800
Vesting date	31 August 2012
Disposal Restriction until	31 August 2013
Performance Measure	KPIs
Expected price volatility of the company's shares	31%
Risk-free interest rate	5.1%
Expected dividend yield	-
Share price at grant date	$0.49
Assessed fair value	$0.39

Information used in assessing the fair value of performance rights granted during the year ended 30 June 2010 is as follows:

Right grant date	31 March 2010	31 March 2010	31 March 2010
Number of rights granted	262,500	262,500	225,000
Vesting date	31 December 2010	31 December 2010	31 December 2010
Disposal Restriction until	1 March 2013	1 March 2013	1 March 2013
Performance Measure	Share Price ≥ $0.65	Share Price ≥ $1.00	KPIs
Expected price volatility of the company's shares	41%	41%	41%
Risk-free interest rate	5.3%	5.3%	5.3%
Expected dividend yield	-	-	-
Share price at grant date	$0.69	$0.69	$0.69
Assessed fair value	$0.37	$0.09	$0.55

Expenses arising from share-based payment transactions

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

	Consolidated	
	2011 $'000	2010 $'000
Options issued under employee option plan	**138**	182
Options issued under deed	**–**	–
Employee shares issued	**26**	1,004
Employee performance rights issued	**291**	82
	455	1,268

26. Related party transactions

(a) Parent entity and subsidiaries

The parent entity of the group is Starpharma Holdings Limited. Interests in subsidiaries are set out in note 21.

(b) Key management personnel

Disclosures relating to key management personnel are set out in note 17.

(c) Transactions with related parties

There are related party transactions within the group between the parent and subsidiaries. Transactions include funds advanced to/from entities and the associated interest charge; and management and services fees. All transactions were made on an arm's length basis.

27. Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	Parent	
	2011	2010
	$'000	$'000
Balance Sheet		
Current assets	**16,876**	19,553
Total assets	**35,349**	42,410
Current liabilities	**988**	1,624
Total liabilities	**1,644**	1,624
Shareholders' equity		
Contributed equity	**105,399**	101,766
Reserves	**2,333**	1,903
Accumulated losses	**(74,027)**	(62,883)
Loss for the year	**(11,144)**	(4,663)
Total comprehensive income	**(11,144)**	(4,663)

(b) Contingencies of the parent entity

The parent entity has no contingent assets or liabilities at 30 June 2011 (2010: nil).

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 31 to 66 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with *Accounting Standards*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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

Peter T Bartels, *AO*
Director
Melbourne, 29 August 2011

PRICEWATERHOUSECOOPERS

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

Report on the financial report

We have audited the accompanying financial report of Starpharma Holdings Limited (the company), which comprises the balance sheet as at 30 June 2011, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Starpharma Holdings Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1 (a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

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

PRICEWATERHOUSECOOPERS

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Starpharma Holdings Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*, and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1 (a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 15 to 25 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Starpharma Holdings Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

A J Linschoten

Anton Linschoten
Partner

Melbourne
29 August 2011

Shareholder Information

The shareholder information set out below was applicable as at 31 July 2011

Supplementary information as required by ASX listing requirements.

A. Distribution of equity shareholders

Analysis of numbers of equity security holders by size of holding

	Class of equity security		
	Shares	Options	Performance rights
1 –1,000	465	–	–
1,001–5,000	1,342	–	–
5,001–10,000	775	–	–
10,001–100,000	1,196	14	22
100,000 and over	186	9	–
Total	3,964	23	22

There were 104 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

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

	Ordinary shares	
Name	Number held	Percentage of issued shares
1. National Nominees Limited	57,203,840	23.09
2. J P Morgan Nominees Australia Limited	21,165,720	8.54
3. Citicorp Nominees Pty Limited	14,775,416	5.96
4. HSBC Custody Nominees (Australia) Limited	12,638,129	5.10
5. JP Morgan Nominees Australia Limited <Cash Income A/C>	5,925,251	2.39
6. T & N Argyrides Investments P/L <Super Fund A/C>	5,566,589	2.25
7. Mr Peter Malcolm Colman	4,157,286	1.68
8. Kenneth Nominees Pty Ltd <Rayse Super Fund A/C>	4,000,000	1.61
9. Auckland Trust Company Ltd <Second Pacific Master Sf A/C>	3,625,307	1.46
10. JPS Distribution Pty Ltd <Raff S/F A/C>	3,567,831	1.44
11. Applecross Secretarial Services Pty Ltd <Gorr Pension Plan A/C>	2,882,462	1.16
12. Citicorp Nominees Pty Ltd <Cwlth Bank Off Super A/C>	2,539,223	1.02
13. Mr Kingsley Bryan Bartholomew	2,000,000	0.81
14. JPS Distribution Pty Ltd <Raff Family A/C>	1,969,142	0.79
15. Commonwealth Scientific And Industrial Research Organisation	1,448,798	0.58
16. VCAMM Limited	1,397,302	0.56
17. HSBC Custody Nominees (Australia) Limited - A/C 2	1,386,766	0.56
18. Dr Stuart Keith Roberts	1,350,000	0.54
19. Ms Jacinth Fairley	1,278,571	0.52
20. Mr Peter Murray Jackson	1,225,000	0.49
	150,102,633	60.57

Name	Unquoted equity securities over ordinary shares Number on issue	Number of holders
Options issued under the Starpharma Holdings Limited Employee Share Option Plan (ASX code SPLAM)	1,499,000	19
Options issued under individual option deeds	1,704,809	4
Employee Performance Rights	750,800	22
Total	2,457,108	45

C. Substantial holders

Substantial shareholders as shown in substantial shareholder notices received by the Company as at 31 July 2011:

Name	Ordinary shares Number held
Acorn Capital Limited	29,920,807
Orbis Investment Management (Australia) Pty Ltd	23,151,172
The Dow Chemical Company	14,406,827
Platinum-Montaur Life Sciences LLC	9,046,365

D. Voting rights

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

(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.

(c) Performance Rights

No voting rights.

E. Securities subject to voluntary escrow

The following equity securities are subject to voluntary escrow until the date indicated:

	Type of equity securities	Number of equity securities	Number of holders	Release date
Employee Share Plan ($1,000 Plan)	Ordinary Shares	25,524	18	25 January 2013
Employee Share Plan ($1,000 Plan)	Ordinary Shares	28,560	24	1 February 2014
CEO Equity Incentive Plan	Ordinary Shares	487,500	1	1 March 2013
Employee Performance Rights Plan	Performance Rights	750,800	22	31 August 2013

Intellectual Property Report

The Starpharma patent portfolio currently has around 30 active patent families with over 110 granted patents and more than 70 patent applications pending. Two new provisional patent applications were filed during the year.

Key patents within the Starpharma portfolio as at 9 August 2011:

Title	Priority Date & Publication Number	Patents Granted	Applications Pending
VivaGel® Patent Portfolio			
Antiviral Dendrimers	15 June 1994 WO95/34595	Australia, Brazil, Canada, China, Europe, Hong Kong, Mexico, New Zealand, Singapore, South Korea, USA, Japan	
Anionic Or Cationic Dendrimer Antimicrobial Or Antiparasitic Compositions	14 September 1998 WO00/15240	Australia, Canada, Europe, Mexico, New Zealand, Singapore, South Korea, USA	China, Japan
Agents For The Prevention & Treatment Of Sexually Transmitted Diseases-I	30 March 2001 WO02/079299	Australia, Canada China, Europe, Hong Kong, Japan, Mexico, New Zealand, Singapore, South Korea, USA	Brazil, USA
Microbicidal Dendrimer Composition Delivery System	18 October 2005 WO2007/045009	New Zealand, Russian Federation,	Argentina, Australia, Canada, China, Europe, Hong Kong, India, Japan, Malaysia, Mexico, South Korea, Taiwan, USA
Contraceptive Composition	22 March 2006 WO2007/106944		Australia, Canada, China, Europe, Japan, USA
Method Of Treatment Or Prophylaxis Of Bacterial Vaginosis	16 May 2011 Not yet published		International application
Platform Patent Portfolio			
Macromolecules Compounds Having Controlled Stoichiometry	25 October 2005 WO2007/048190		Australia, Canada, Europe, USA
Modified Macromolecules	10 August 2006 WO2007/082331		Australia, Canada, China, Europe, India, Japan, USA
Core-Shell Tectodendrimers	16 February 1999 WO00/049066	Canada, Europe, USA,	Mexico
Dendritic Polymers With Enhanced Amplification And Interior Functionality	20 April 2005 WO2006/065266	Canada, India, Japan, New Zealand Singapore , South Korea, USA	Argentina, Brazil, China, Europe, Hong Kong, Israel, Mexico, Taiwan,
Dendritic Polymers With Enhanced Amplification And Interior Functionality	21 December 2005 WO2006/115547	Australia, India, Singapore, South Korea, USA	Argentina, Brazil, Canada, China, Europe, Hong Kong, Israel, Mexico, New Zealand, Taiwan,
Imaging Project Patent Portfolio			
Polylysine Dendrimer Contrast Agent	11 August 2006 WO2008/017122		China, Europe, USA
siRNA Project Patent Portfolio			
Delivery Of Biologically Active Materials Using Core-Shell Tectodendritic Polymers	3 March 2006 WO2008/054466		Europe, USA
Drug Delivery Project Patent Portfolio			
Targeted Polylysine Dendrimer Therapeutic Agent	11 August 2006 WO2008/017125		China, Europe, India, USA
Agricultural Chemicals Patent Portfolio			
PEHAM Dendrimers for use in Agriculture	26 October 2009 WO2011/053605		International , USA

Corporate Directory

Company name
Starpharma Holdings Limited
ABN 20 078 532 180

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

Company Secretary
Ben Rogers

Other Management

Nigel Baade	Chief Financial Officer
Paul Barrett	VP, Business Development
Malcolm McColl	VP, Business Development
David Owen	VP, Research
Jeremy Paull	VP, Development and Regulatory Affairs

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Southbank VIC 3006 Australia

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Melbourne VIC 3000 Australia

Stock exchange listing
ASX Limited
Level 45, South Tower, Rialto, 525 Collins Street,
Melbourne VIC 3000 Australia

ASX Code: SPL

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

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

Website address
www.starpharma.com

Annual General Meeting
Thursday 10 November 2011 at 4.00pm
Norton Rose
RACV Tower, 485 Bourke Street,
Melbourne VIC 3000

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