Starpharma ANNUAL REPORT 08

starpharma

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STARPHARMA HOLDINGS LIMITED
ABN 20 078 532 180

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

On-line Annual Report

In 2007, the Australian Government introduced legislation allowing the option for annual reports to be provided to shareholders via the company website. As a result more than 88% of Starpharma's shareholders have elected to receive this year's annual report electronically. The change in legislation has enabled Starpharma to undertake more environmentally friendly and cost effective production practices with a significant reduction in paper usage and printing costs. The Company's website (www.starpharma.com) is now the primary medium for report distribution.

Accordingly, shareholders may notice a change in this year's annual report which has been designed to ensure ease of on-line viewing whilst at the same time maintaining the high quality of our hard-copy version as per previous years.

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

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Highlights 2007–2008

Commercial Development

- Signing of Durex® Condom Coating Full Licence Agreement
- Collaborative research agreement with Stiefel – world's largest privately-owned dermatology pharmaceutical company
- First commercial product launch of Starpharma's DNT Priostar® Dendrimers

VivaGel®: Clinical Development and New Indications

- Clinical trial results: VivaGel® safe and well-tolerated in sexually abstinent women when administered twice daily for 14 days
- Potential to expand VivaGel® applications to prevention of HPV (human papillomavirus)

Pipeline and Application Development

- Dendrimers found to have potential application for arthritis treatments
- Water purification technology contract with US Department of Defense
- Funding awarded for joint project with Baker IDI Heart and Diabetes Institute to co-develop arterial disease imaging agent
- Dendrimer technology applications expanded to food science with Unilever agreement

About Starpharma

Starpharma Holdings Limited is listed on the Australian Securities Exchange (ASX:SPL) and its securities also trade in the United States under the American Depository Receipts (ADR) program on the OTCQX (OTCQX:SPHRY). It comprises two operating subsidiaries, Starpharma Pty Ltd based in Melbourne, Australia, and Dendritic Nanotechnologies (DNT) Inc, based in Michigan, USA.

Dendrimers are man-made, nano-sized compounds with unique properties that make them useful to the health and pharmaceutical industry as both enhancements to existing products and as entirely new products.

Starpharma aims to create value through the commercialisation of products based on its proprietary dendrimer nanotechnology and focuses on three key areas of exploitation, with each having the potential for substantial revenues:

VivaGel® (SPL7013 Gel)

VivaGel®, the most advanced product in Starpharma's pharmaceutical pipeline, is under development both as a condom coating and as a stand-alone vaginal microbicide to prevent the spread of sexually transmitted infections such as genital herpes and HIV. This is a mass-market application in both developed and developing countries. In addition to being developed as a stand-alone gel, VivaGel® is also under development as a condom coating. For the commercialisation of VivaGel® coated condoms, Starpharma has partnered with the marketers of the world's best-selling condom brand, Durex®.

More recently Starpharma has identified human papillomavirus (HPV) infection as a third disease area to investigate following encouraging pre-clinical data. Preliminary data from humans suggest that VivaGel® may also be effective in the treatment of bacterial vaginosis. Additionally VivaGel® has been shown to possess potent contraceptive activity in animals.

Other Medical and Life Science Applications

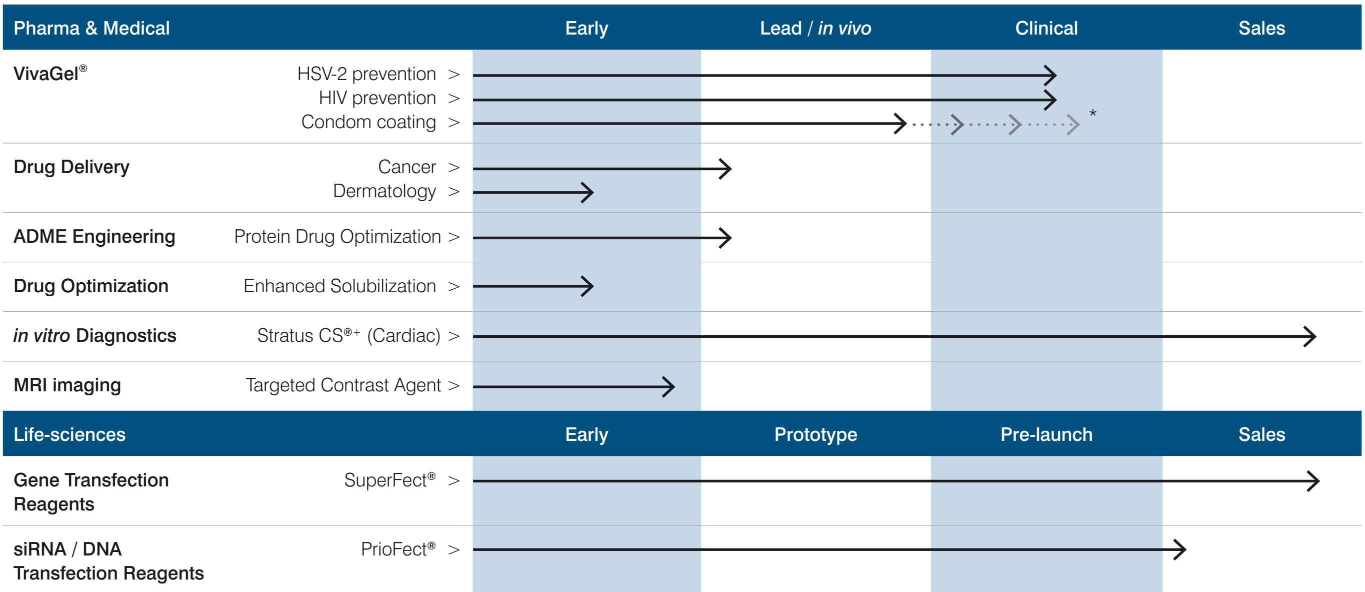
Starpharma is pursuing programs in fields such as cancer, dermatology and targeted diagnostics. Life-science applications include laboratory transfection reagents for the introduction of nucleic acid into cells and to increase the sensitivity and reliability of external diagnostic tests for various human conditions.

Industrial Applications of Dendrimers

DNT is exploiting opportunities for industrial applications of dendrimers as specialty additive chemicals in the cosmetic, ink and coatings industries. These applications make use of dendrimer properties such as their ability to improve adhesion and cross-linking of polymers or fluids, and their ability to sequester toxins and metals.

Starpharma's Pipeline

Pharmaceutical and Life Science Product Pipeline



* Condom coating has the potential for an accelerated development program
+ Registered trade mark of Dade Behring Inc. (Siemens)

Partnerships

Much of Starpharma's commercialisation strategy is based on partnered programs, both to gain access to application or disease-area expertise, and to capitalise on established paths to market. Starpharma's partners and licensees include:

- SSL International plc
- Stiefel Laboratories Inc.
- Siemens
- Qiagen
- Merck KGaA
- Unilever
- The Baker IDI Heart and Diabetes Institute
- Monash University's Faculty of Pharmacy and Pharmaceutical Sciences (formerly VCLP)

Chairman's Report

Dear Shareholder,

On behalf of the Board and management of Starpharma, I am pleased to present the 2007–08 annual report for your review.

Starpharma has focused on three aspects of operations over the last twelve months: commercialisation of Starpharma's technology; clinical development of VivaGel® both as a condom coating and as a vaginal microbicide; and advancing drug delivery applications of dendrimers through laboratory-based projects.

As well as making substantial progress in the clinical development of the HIV and genital herpes applications of VivaGel®, Starpharma has added human papillomavirus (HPV) to the target list of sexually transmitted infections against which VivaGel® will be evaluated. For the first time this year the Company announced that it would also explore an application of VivaGel® based on treatment, rather than prevention, namely against bacterial vaginosis (BV).

A major theme over the year has been the advancement of the condom coating opportunity for VivaGel® to a full licence. Initially, this included the signing with SSL International plc of a co-development agreement for the VivaGel® coated condom, then regulatory and product development and most recently the cementing of a licence agreement between the companies, the value of which Starpharma expects to exceed A$100 million over the life of the contract.

While Starpharma continues to work on the pharmaceutical applications of SPL7013, the active dendrimer in VivaGel®, we have several programs under way at DNT for industrial applications of dendrimers.

The programs are wide-ranging, from cleaning up contaminated ground water to improving the properties of inks and industrial coatings.

The pharmaceutical and industrial applications of our dendrimer technology present multiple opportunities for commercialisation.

Finally, I would like to take this opportunity to thank my fellow Board members, CEO Jackie Fairley and her management team and all of the company's staff in Australia and the US for their dedicated work throughout the year. Their collective contributions have produced another year of substantial progress for Starpharma.

Peter T Bartels, *AO*
Chairman

Operational Report

Introduction

Starpharma's commercial and clinical programs have advanced during the year and important progress has been made to broaden the applications and commercial opportunities for VivaGel® substantially.

The demand for a product such as VivaGel® continues to build due to the ongoing lack of success in human trials of HIV vaccines and the absence of new technologies to counter the spread of HIV and herpes.

Other recent developments are likely to have a favourable impact for the commercial opportunity for VivaGel®. One such development was the launch of vaccines against human papillomavirus (HPV), the primary causative agent for genital warts and cervical cancer. As a result of the promotional activities associated with these launches, there is increased public awareness of STIs and the fact that they can, and should, be prevented.

Attention is also increasingly focused on other life-long viral diseases, such as HIV and herpes simplex virus-2 (HSV-2), the cause of genital herpes. Studies published this year showed that the increased risk of people with genital herpes acquiring HIV is not reduced by treatment with an antiviral agent, a finding that highlights the pressing need for prevention of HSV-2 infection in the fight against AIDS.

Recently published statistics support the need for effective preventive measures. For example, the incidence of STIs in teenage girls in the US is estimated to be about 25%, and up to 60% of new cases of HIV in women in some areas of the world are attributable to the presence of genital herpes (Freeman 2006).

Overview of Financial Results

The net loss for the year was A$7.5 million, compared with A$7.2 million for the previous year. With an increased focus on commercialisation, royalty and licensing revenue grew in the year by 64% to A$1.4 million. Research and development programs continue to be leveraged from various grant sources, with other income from grants totaling A$8.2 million for the year. Grant sources include both United States and Australian government, with the majority from the US National Institutes of Health (NIH).

At year end, the Company maintained cash reserves of A$7.5 million, with operating and investing cash outflows for the year of A$5.4 million. Financing inflows of A$3.4 million reflect the August 2007 capital placement.

Condom Coating

In September 2008 Starpharma announced that a full licence agreement has been signed with SSL International plc (LSE:SSL) in relation to the VivaGel® coated condom. SSL manufactures and sells Durex® condoms, the market-leading condom brand worldwide. The agreement extends a co-development partnership with SSL announced in October 2007 and undoubtedly represents the most significant commercial milestone for the company over the last few years.

Under the commercial terms of this agreement SSL secures marketing rights to the VivaGel® coated condom in most of the world, including Europe and the USA. Starpharma estimates that its receipts under the agreement will exceed A$100m comprising royalties on SSL sales, further milestone payments, and development support.

Dialogue with regulatory agencies has confirmed that the VivaGel® coated condom will be reviewed as a drug/device combination, which will provide a potentially shorter route to market. The regulatory landscape is also maturing with the FDA now requiring that products containing Nonoxynol-9 (N-9) carry warnings that they do not protect against sexually transmitted diseases, including HIV/AIDS, and that their use is associated with an increased risk of HIV. This clear statement by the FDA has helped to clear up consumer confusion and misconceptions about the value of N-9 and has accelerated the search for a safe and effective replacement for this category. This is good news for VivaGel®.

Jackie Fairley
Chief Executive Officer

Operational Report

VivaGel® safety profile strengthened

A study conducted in the US and Kenya showed that twice daily vaginal administration of VivaGel® for 14 days was safe and well-tolerated in sexually abstinent women, paving the way for continued development of VivaGel® for the prevention of infection by HIV, HSV-2 and potentially other STIs.

The results of this NIH supported trial confirmed earlier findings that the active dendrimer of VivaGel® is not absorbed into blood and showed that under the conditions of the study, VivaGel® had no significant effect on vaginal microflora.

New applications for VivaGel®

Two recent developments for VivaGel® are the demonstration of activity against HPV *in vitro* and generation of data indicating potential for treatment of bacterial vaginosis (BV). In addition, our observation that SPL7013 (the active dendrimer in VivaGel®) inhibits an enzyme which interferes with certain treatments of arthritis presents an attractive new commercial opportunity.

Human Papillomavirus (HPV)

HPV, the cause of genital warts, is the most common STI in the US, with over six million new cases of infection each year. HPV is also a factor in the development of most cases of cervical cancer. Both Merck and GSK have vaccines against HPV infection (registered in different parts of the world) that collectively cover approximately 75% of HPV strains associated with cancer.

Starpharma has shown that SPL7013 inhibited clinically relevant HPV strains tested in the laboratory. More testing is underway. Interestingly, SPL7013 exhibited potent inhibition of HPV-45, a strain commonly associated with cervical cancer and not covered by either Merck or GSK vaccines.

Bacterial Vaginosis (BV)

Preliminary findings from our clinical trials also suggest that VivaGel® tends to restore the normal composition of vaginal bacteria in women identified as having asymptomatic BV at the time of enrolment in the trial. This finding, along with *in vitro* data, provides the basis for development of VivaGel® as a potential treatment for the first time.

Bacterial vaginosis is caused by an imbalance in the relative numbers of naturally occurring vaginal bacteria and disease-causing bacteria. The condition is particularly prevalent in the US, reportedly affecting 29% of women, and has been implicated in pelvic inflammatory disease, increased risk of STIs, and miscarriage. If proven effective against BV in forthcoming trials, VivaGel® may offer several advantages over conventional antibiotic treatments. VivaGel® is compatible with condoms and less likely to cause drug interactions or lead to drug resistance and is not absorbed by the body.

Hyaluronidase inhibition

Last April, Starpharma filed a patent application for a completely new use of the active ingredient in VivaGel®, SPL7013. The finding that SPL7013 inhibits the activity of an enzyme called hyaluronidase has potential in the treatment or prevention of a number of diseases. The inhibitory activity was discovered during studies on the contraceptive activity of SPL7013, because hyaluronidase is involved in fertilisation of an egg by a sperm.

The finding is significant because excess hyaluronidase activity is associated with arthritis. Hyaluronidase breaks down a large molecule called hyaluronic acid, which lubricates and cushions joints and also assists with the retention of moisture by skin.

Operational Report

Multiple Commercial Applications for Starpharma's Dendrimers

Drug Delivery

An announcement last December heralded Starpharma's first collaborative research agreement in the very promising area of drug delivery. The agreement with the world's largest independent pharmaceutical company specialising in dermatology, Stiefel Laboratories Inc, relates to the application of dendrimer technology to the improved delivery of certain drugs used to treat dermal conditions.

Starpharma has a very active business development effort in the drug delivery area with the potential to yield multiple commercial arrangements, both for small molecule drugs and protein therapeutics.

Priostar®

Dendritic Nanotechnologies Inc. (DNT) has completed several application development projects for its Priostar® Dendritic Additives. These are of relevance to manufacturers of cosmetics, coatings and inks seeking to increase the performance and marketability of their materials and products.

Priostar® Additives improve adhesion, cross-linking, and dispersion in formulations to offer greater resistance to shearing and UV radiation damage.

DNT's ongoing project on water remediation with Central Michigan University has received additional funding from the US Department of Defense (DoD). This DoD project is directed at the removal from groundwater of perchlorate discharged from military installations and addresses an important issue for an increasingly scarce resource. However, the novel dendritic polymer system under development will be adaptable to other commercial uses, including the selective recovery of metals such as copper, silver and zinc, and removal from drinking water of the contaminants such as arsenic and mercury.

In April, Starpharma signed an agreement with Unilever to co-develop a research tool incorporating DNT's Priostar® dendrimer technology. Under the agreement, DNT will make its Priostar® dendrimers available to Unilever as imaging agents for use in analysis of the microscopic structure of foods. An understanding of the microstructure is important in creating appetising food and determining properties such as 'mouth-feel' and the controlled release of taste and smell.

Operational Report

Capital investment and market performance

In February 2008, US investor Platinum-Montaur Life Sciences built on its initial investment in Starpharma with on-market purchases and lodged a substantial shareholder notice with the ASX.

Platinum's increased share-holding is indicative of the growing awareness of Starpharma in the US, where investors now hold more than 25% of total equity. The fund manager responsible for the Platinum position offered the following reasons behind the decision to purchase Starpharma stock:

- the size of the markets for Starpharma's dendrimer technology;
- the relatively low cost of determining whether the technology works and its proven efficacy against the target in very stringent preclinical studies; and
- the high level of funding of VivaGel® programs from the US National Institutes of Health.

Starpharma's involvement with the rapidly expanding International OTCQX exchange has provided visible cross-listing in the US while avoiding the regulatory costs associated with listing on US exchanges. In addition, the OTCQX places Starpharma alongside companies such as pharmaceutical company Roche; multinational chemical manufacturer, BASF; the world's largest manufacturer of food and industrial ingredients, Tate and Lyle; and the world's largest paints and coatings company, AkzoNobel.

Starpharma now trades between 30% and 40% of its volume through the OTCQX and has approximately 10 market makers actively trading the stock (code SPHRY).

Outlook

The Board and Management of Starpharma remain committed to building shareholder value in the coming financial year through focus on a number of high value initiatives.

The significant near term commercial opportunity of the VivaGel® coated condom is a strong focus for Starpharma in collaboration with our commercial partner SSL.

For VivaGel®, the company plans to complete the expanded safety/Phase IIa trials, advance the program to conduct efficacy trials for HIV infection and genital herpes, and initiate a Phase II trial for the new indication of BV.

Early findings of VivaGel® activity against clinically relevant strains of HPV will be further investigated and the development program for VivaGel® as a contraceptive will also be progressed.

Several exciting opportunities for expanding dendrimer-based commercial relationships and applications are approaching deals in areas including drug delivery, life-science and industrial applications. The company intends to advance its siRNA delivery and drug delivery programs with the objective of forming one or more commercial partnerships for both of them.

The finding that SPL7013 may have application in the treatment of arthritis and dermatology through its inhibition of the enzyme hyaluronidase also provides the potential for further commercial arrangements.

Jackie Fairley

Jackie Fairley, B.Sc, B.V.Sc. (Hons), MBA
Chief Executive Officer

The real life potential of VivaGel®: a case study

In 1999 Jeannie May's life was changed forever the day she was diagnosed with genital herpes. As with most people who contract the virus, Jeannie struggled to come to terms with the implications having herpes would have for her health and her future relationships.

Jeannie remembers the impact of hearing the news: "Quite suddenly I felt like I was someone else. I now had an incurable STI which I could potentially pass on to any future partner … my self esteem plummeted to an undreamt of low as I struggled to cope with the devastating diagnosis."

When Jeannie sought out support groups and information for people living with genital herpes, she found that although many websites had great information, they lacked any real guidance and support for people living with the disease – despite the shocking reality that 1 in 8 adults in Australia carry the virus. Jeannie was motivated to develop the 'Living Sphere' website which provides factual information, peer support and guidance for people with herpes.

Jeannie's first-hand experience living with herpes herself and providing support to others has made her a strong advocate for awareness and the need to break down the taboo that surrounds genital herpes and which has prevented an open discussion of the prevalence of this and other sexually transmitted infections.

Jeannie has keenly followed the development of microbicides and their potential to significantly curb the prevalence of STIs by preventing their transmission.

"I first heard about microbicides a few years ago … I did some research on the internet, downloaded several helpful e-books about them and was excited about their potential to reduce the transmission of STIs."

"Microbicides will empower women to take greater responsibility for protecting themselves from STIs", she continued.

"Some men don't like wearing condoms so to have an alternative which enables women to be in control of their own protection will make a huge difference to women the world over."

Starparhama's VivaGel® is one of the most advanced microbicides in development around the world. VivaGel® is under development for the prevention of HIV, Genital Herpes and the human papillomavirus.

Management

Jackie Fairley, B.Sc, B.V.Sc. (Hons), MBA
Chief Executive Officer

Dr Fairley has over 18 years' experience in the pharmaceutical and biotechnology industries working in business development and senior management roles with companies including CSL and Faulding (now Mayne Hospira). Before joining Starpharma in 2006, she was Chief Executive Officer of Cerylid Biosciences. Dr Fairley also spent five years as a Vice President for Faulding's injectable division and more than five years with CSL in various executive roles. She holds first class honours degrees in Science (pharmacology/pathology) and Veterinary Science, and has an MBA from Melbourne Business School where she was the recipient of the Clemenger Medal.

Paul Barrett, BSc (Hons), PhD
Vice President, Business Development

More than half of Dr Barrett's 17-year career in the advanced technology sector has been dedicated to product marketing and commercialisation. Prior to joining Starpharma from the UK in 2005 he held positions at Nortel Networks, Smiths Industries Aerospace, Bookham Technology, and the University of Oxford. His areas of professional experience include nanotechnology, drug-delivery, protein science, network and telecommunications infrastructure, optical systems and holography.

Robert I. Berry, PhD
President of DNT

Dr Berry has been involved in the technology and research field for 26 years and has founded four companies and consortia to advance the use of technology and research. Dr. Berry most recently served as the president and CEO of the Central Michigan University Research Corporation and as the chief technology officer at Central Michigan University. Dr. Berry received his doctorate from Northern Arizona University, where he was a faculty member and was Assistant Director of Research.

David Owen, BSc (Hons), PhD
Vice President, Research

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

Jeremy Paull, BSc (Hons), PhD
Vice President, Development and Regulatory Affairs

Dr Paull has 8 years' experience in drug and device development, quality assurance, and regulatory and clinical affairs and is currently the Principal Investigator for Starpharma's two NIH-funded programs. He has been instrumental in the VivaGel® development program and was responsible for the first clinical trials of the product under the IND application to the US FDA. Dr Paull has a PhD in pharmacology, and previously worked on the development of a medical device for transdermal drug delivery.

Ben Rogers
Company Secretary and Chief Financial Officer

Mr Rogers has extensive experience in finance and human resources management with the CSIRO research laboratories in Victoria, South Australia, and Western Australia. He also operated his own consulting business providing services to Cooperative Research Centres and CSIRO Divisions. Mr Rogers joined Starpharma on commencement of operations in April 1997 and was appointed to the position of company secretary in February 1998.

Nigel Baade, BCom, CPA, Grad Dip Arts (Development)
Financial Controller

Mr Baade is a CPA-qualified accountant with experience in the pharmaceutical and biotechnology industries. His previous roles have included Finance Manager of Cerylid Biosciences and Manager Accounting, International Business Development for Faulding (now Mayne Hospira). Mr Baade has extensive experience in financial control, project and cost management of research activities, commercialisation of global business development opportunities, private equity raising and grant funding. Before joining Starpharma he held a commercial planning role with Dutch multinational Hagemeyer.

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 2008.

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)
J K Fairley
P J Jenkins
R Dobinson
R A Hazleton
J W Raff

L Gorr was a director from the beginning of the financial year until his resignation on 14 November 2007.

P M Colman was a director from the beginning of the financial year until his resignation on 11 February 2008.

Principal Activities

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

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

Dividends

No dividend has been paid or declared during or since the end of the financial year.

Review of Operations

Information on the operations and financial position of the Group and its business strategies and prospects is set out in the review of the operations and activities on pages 1 to 10 of this annual report.

Operating Loss

For the year ended 30 June 2008 the consolidated entity incurred an operating loss after income tax of $7,491,000 (June 2007: $7,245,000).

Significant changes in the state of affairs

There was an increase in contributed equity of $2,440,000 (from $76,227,000 to $78,667,000) as a result of the issue of 11,881,167 fully paid ordinary shares in a private placement to a US-based institution and an existing Australian institutional shareholder at a price of $0.3212 per share. Attached to the placement were unlisted options of 7,567,119. The options have an exercise price of $0.4346 per option with an expiry date of 21 August 2012.

Matters subsequent to the end of the financial year

On 9 September 2008 the Company announced that a full licence agreement has been signed with SSL International plc (LSE:SSL) in relation to the VivaGel® coated condom. SSL manufactures and sells Durex® condoms, the market-leading condom brand worldwide. Under the terms of this agreement SSL secures marketing rights to the VivaGel® coated condom in most of the world, including Europe and the USA. In return, Starpharma will receive further milestone payments, development support, and royalties on net sales which Starpharma estimates will exceed $100 million over the life of the agreement.

No other matters or circumstances have arisen since 30 June 2008 that have significantly affected, or may significantly affect:
(a) the consolidated entity's operations in future financial years, or
(b) the results of the operations in future financial years, or
(c) the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

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

Additional comments on expected results of certain operations of the Group are included in this annual report under the review of operations and activities on pages 1–10.

Further information on likely developments in the operations of the consolidated entity 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 consolidated entity.

Regulatory Environment

There were no significant changes in laws or regulations during 2007/08 or since the end of the year affecting the business activities of the consolidated entity, and the directors are not aware of any such changes in the pipeline.

Environmental regulation

The Group is subject to environmental regulations and other licences in respect of its laboratory facilities in Melbourne (Victoria) and Mt Pleasant (Michigan, USA). There are adequate systems in place to ensure compliance with relevant Commonwealth, State and Federal 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 established OH&S Committees as part of its overall approach to workplace safety. Further details of the Company's policy and practices are set out in the corporate governance statement on page 33 of this annual report.

Information on Directors

Peter T Bartels, AO, FAISM, FRS.
Chairman – Non-executive, Age 67.

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

Other current directorships of listed entities
None.

Former directorships of listed entities in last 3 years
None.

Special Responsibilities
Chairman of the Board.
Member of remuneration & nomination committee.
Member of audit & risk committee (since 19 February 2008).

Interests in shares and options at the date of the Directors' Report
129,804 ordinary shares in Starpharma Holdings Limited

John W Raff
Dip. Ag. Sc., BSc., PhD.
Non-executive director Age 59.

Experience and expertise
Chief Executive Officer for nine years until retirement on 1 July 2006. Previously General Manager of the Biomolecular Research Institute. Co-founder, director and major shareholder of a technology based agricultural seed company. Chairman, BioMelbourne Network. Also founder and investor in a number of other start-up technology companies.

Other current directorships of listed entities
None.

Former directorships of listed entities in last 3 years
None.

Special Responsibilities
Deputy Chairman

Interests in shares and options at the date of the Directors' Report
7,280,777 ordinary shares in Starpharma Holdings Limited

Jacinth (Jackie) K Fairley
B.Sc., B.V.Sc.(Hons), MBA
Chief Executive Officer, Age 45.

Experience and expertise
Chief Operating Officer of Starpharma from 4 July 2005 to 30 June 2006. Chief Executive Officer since 1 July 2006. Over 18 years' experience in the pharmaceutical and biotechnology industries working in business development and senior management roles with companies including CSL and Faulding (now Mayne Hospira). Former Chief Executive Officer of Cerylid Biosciences. 5 years as a Vice President for Faulding's injectable division and 5 years with CSL in various executive roles. She holds first class honours degrees in Science (pharmacology/pathology) and Veterinary Science, and has an MBA from the Melbourne Business School where she was the recipient of the Clemenger Medal.

Other current directorships of listed entities
None

Former directorships of listed entities in last 3 years
None.

Special Responsibilities

Chief Executive Officer
Member of research committee (until 11 February 2008).

Interests in shares and options at the date of the Directors' Report
53,750 ordinary shares in Starpharma Holdings Limited
1,150,000 options over ordinary shares in Starpharma Holdings Limited

Information on Directors

Peter M Colman
BSc(Hons), PhD, FAA, FTSE.
Independent non-executive director, Age 64.

Experience and expertise
Non-executive director for ten years. Head, Structural Biology Division, The Walter & Eliza Hall Institute of Medical Research. Former Executive Director, Biomolecular Research Institute. Published widely in the field of structural biology. In 1983 his Laboratory determined the structure of the surface proteins of influenza virus, and a major result of that work was the discovery of Relenza. One of the founding directors of Biota Holdings Limited. Resigned 11 February 2008.

Other current directorships of listed entities
None.

Former directorships of listed entities in last 3 years
None.

Special Responsibilities

Member of research committee (until 11 February 2008).

Interests in shares and options at the date of the Directors' Report
5,992,286 ordinary shares in Starpharma Holdings Limited

Ross Dobinson
B. Bus (Acc)
Independent Non-executive director, Age 56.

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

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

Former directorships of listed entities in last 3 years
Roc Oil Company Limited (director June 1997 to 31 December 2007).

Special Responsibilities
Chairman of audit & risk committee.
Chairman of remuneration & nomination committee.

Interests in shares and options at the date of the Directors' Report
None

Leon Gorr
B. Juris, LLB, M.Admin
Independent non-executive director, Age 64.

Experience and expertise
Non-executive director for six years. Non-executive director of Starpharma Pty Ltd for ten years. Senior Partner, Herbert Geer. 35 years' experience as a solicitor. Extensive experience in providing advice on the negotiation and interpretation of technology licensing agreements. Clients include investors in, and advisors to the biotechnology industry. Resigned 14 November 2007.

Other current directorships of listed entities
None.

Former directorships of listed entities in last 3 years
None.

Special Responsibilities
Member of audit & risk management committee (until 14 November 2007).
Member of remuneration & nomination committee (until 14 November 2007).

Interests in shares and options at the date of the Directors' Report
5,204,704 ordinary shares in Starpharma Holdings Limited

Richard A Hazleton
BSChE, MSChE, HonDrEngr, HonDrCommSci
Independent Non-executive director, Age 66.

Experience and expertise
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.

Special Responsibilities
Member of remuneration & nomination committee (since 14 April 2008).

Interests in shares and options at the date of the Directors' Report
142,616 ordinary shares in Starpharma Holdings Limited

Peter J Jenkins
MB, BS (Melb), FRACP
Independent Non-executive director, Age 62.

Experience and expertise
Independent non-executive director for eleven years. Consultant physician and gastroenterologist. Holds clinical and research positions with the Alfred Hospital and has held clinical 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
Non-executive director of bio-pharmaceutical company Anadis Ltd (director since 1994).

Former directorships of listed entities in last 3 years
None.

Special Responsibilities
Chairman of research committee (until 11 February 2008).
Member of audit & risk committee.

Interests in shares and options at the date of the Directors' Report
1,416,000 ordinary shares in Starpharma Holdings Limited

Company Secretary

The Company Secretary is Mr Ben Rogers. Age 60. He has extensive experience in finance, corporate governance and HR management with CSIRO research laboratories in Victoria, South Australia and Western Australia. He also operated his own consulting business providing services to Co-operative Research Centres and CSIRO Divisions. Mr Rogers was a member of Starpharma's start-up/IPO management team and has been Company Secretary since February 1998, with responsibilities that include the role of Chief Financial Officer. Mr Rogers 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 2008, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meetings of committees					
			Audit & risk		Remuneration & nomination		Research	
	A	B	A	B	A	B	A	B
P T Bartels	7	7	1	1	3	3	*	*
P M Colman (retired 11 February 2008)	3	5	*	*	*	*	1	1
R Dobinson	6	7	2	2	3	3	*	*
J Fairley	7	7	*	*	*	*	1	1
L Gorr (retired 14 November 2007)	4	4	0	1	0	1	*	*
R Hazleton	5	7	*	*	0	0	*	*
P J Jenkins	7	7	2	2	*	*	1	1
J W Raff	7	7	*	*	*	*	*	*

Key

A = Number of meetings attended

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

* = Not a member of the relevant committee.

Retirement, election and continuation in office of Directors

Mr Leon Gorr retired on rotation as a director on 14 November 2007 and did not offer himself for re-election.

Prof Peter Colman retired as a director on 11 February 2008.

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

Mr Peter 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
E. Additional Information

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

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

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

Directors' fees

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration. Non-executive directors do not receive share options or bonuses.

Non-executive directors' fees are reviewed annually by the remuneration and nomination committee, but have not been increased since 1 January 2004. Fees and payments are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The aggregate amount currently stands at $450,000 which was approved by shareholders on 15 November 2006. This amount (or some part of it) is to be divided among the non-executive directors as determined by the Board. The aggregate amount currently paid to non-executive directors is $240,000 per annum.

Non-executive directors do not receive any performance-related remuneration or retirement allowances. Superannuation contributions required under the Australian superannuation guarantee legislation continue to be made and are deducted from the directors' overall fee entitlements.

Relationship between executive reward and company financial performance

The Company's remuneration policy aligns executive reward with the interests of shareholders. The primary focus remains on the longer term objectives of developing and commercialising products arising out of the research activities of the group, and therefore the remuneration policy is not directly linked to financial performance determined by losses and share price performance. The Company has incurred losses in this financial year and in the previous 4 financial years and has no certainty that this will change in the near term.

Remuneration is set based on key performance indicators (KPIs) which include (but are not limited to) successful negotiations of commercial contracts, achieving key research and development milestones, and ensuring the availability of adequate capital to achieve stated objectives.

Executive pay structure

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

The executive pay and reward framework comprises:

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

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

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

Starpharma Employee Share Option Plan
All executives and staff are eligible to participate in the Starpharma Employee Share Option Plan. The objective of the Plan is to assist in the recruitment, reward, retention and motivation of employees of the company.

Options are granted under the Plan for no consideration.

The exercise price of options granted under the Plan must be not less than the market price at the time the decision is made to invite a participant to apply for options. The exercise price is usually calculated on the basis of 15% above market price. Market price is calculated as the volume-weighted average price (VWAP) of the shares in the 15 days preceding the grant of the options.

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

Options granted under the plan carry no dividend or voting rights.

Each option is personal to the participant and is not transferable, transmissible, assignable or chargeable, except with the written consent of the remuneration and nomination committee.

Further information on the Starpharma Employee Share Option Plan is set out in note 38 to the financial statements.

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

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) of the Company and the consolidated entity are set out in the following tables.

The key management personnel of Starpharma Holdings Limited includes the directors as per pages 13 to 15.

The key management personnel of Starpharma Holdings Limited Group includes the directors as per pages 13 to 15. above and the following executive officers, which includes the five highest paid executives of the entity:

N J Baade	Financial Controller
C P Barrett	VP, Business Development
R I Berry	President, Dendritic Nanotechnologies, Inc
J K Fairley	CEO
D J Owen	VP, Research
J R Paull	VP, Development and Regulatory Affairs
B P Rogers	Company Secretary and CFO

Directors and Key management personnel of Starpharma Holdings Limited

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

All performance related remuneration, including cash bonuses and options granted are at risk.
1 Prof P M Colman retired as a director on 11 February 2008
2 Mr L Gorr retired as a director on 14 November 2007.

2007		Short-term benefits		Post-employment		Long-term benefits	Share-based payment	
Name	Cash salary and fees $	Cash bonus# $	Non-monetary benefits $	Super-annuation $	Retirement Benefits $	Long service leave $	Options# leave $	**Total $**
Non-executive directors								
P T Bartels Chairman	–	–	–	80,000	–	–	–	**80,000**
P M Colman	36,697	–	–	3,303	–	–	–	**40,000**
R Dobinson	40,000	–	–	–	–	–	–	**40,000**
L Gorr	36,697	–	–	3,303	–	–	–	**40,000**
P J Jenkins	36,697	–	–	3,303	–	–	–	**40,000**
R Hazleton [1] (from 1/12/2006–30/6/2007)	23,333	–	–	–	–	–	–	**23,333**
Subtotal non-executive directors	173,424	–	–	89,909	–	–	–	**263,333**
Executive directors								
J W Raff Deputy Chairman [2] (from 1/7/2006–30/6/2007)	19,776	–	664	40,172	140,000	–	–	**200,612**
J K Fairley [3] (from 1/7/2006–30/6/2007)	306,230	–	4,041	43,769	–	964	124,015	**479,019**
Totals	499,430	–	4,705	173,850	140,000	964	124,015	**942,964**

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

1 R Hazleton was appointed non-executive director on 1 December 2006.

2 J W Raff retired as CEO on 1 July 2006 and was appointed Deputy Chairman. $40,000 contributed to J W Raff's superannuation was his Director's remuneration. He was paid $60,627 on retirement for accrued long service leave entitlements.

3 J K Fairley was appointed CEO and Executive Director on 1 July 2006.

B. Details of remuneration

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

2008		Short-term benefits		Post-employment		Long-term benefits	Share-based payment	
Name	Cash salary and fees $	Cash bonus[#] $	Non-monetary benefits $	Super-annuation $	Retirement Benefits $	Long service leave $	Options[#] $	**Total $**
Non-executive directors								
P T Bartels *Chairman*	–	–	–	80,000	–	–	–	**80,000**
P M Colman[1] (from 1/07/2007 – 11/02/2008)	22,936	–	–	2,064	–	–	–	**25,000**
R Dobinson	40,000	–	–	–	–	–	–	**40,000**
L Gorr[2] (from 1/07/2007 – 14/11/2007)	13,761	–	–	1,239	–	–	–	**15,000**
P J Jenkins	36,697	–	–	3,303	–	–	–	**40,000**
R A Hazleton	40,000	–	–	–				**40,000**
J W Raff Deputy *Chairman*	–	–	–	40,000	–	–	–	**40,000**
Subtotal non-executive directors	153,394	–	–	126,606	–	–	–	**280,000**
Executive directors								
J K Fairley[3]	295,869	150,000	4,458	53,040	–	14	23,499	**526,880**
Other Key Management Personnel								
B P Rogers	74,612	–	11,899	80,838	–	6,576	19,122	**193,047**
J R Paull	148,758	10,000	11,942	22,300	–	4,044	21,544	**218,588**
C P Barrett	151,750	10,000	1,366	26,880	–	201	19,531	**209,728**
N J Baade	132,762	7,000	327	18,489	–	123	19,122	**177,823**
D J Owen[4]	137,618	–	358	12,386	–	206	14,276	**164,844**
R I Berry[5]	195,138	–	13,567	6,830	–	–	29,959	**245,494**
Totals	1,289,901	177,000	43,917	347,369	–	11,164	147,053	**2,016,404**

[#] All performance related remuneration, including cash bonuses and options granted are at risk.
[1] Prof P M Colman retired as a director on 11 February 2008
[2] Mr L Gorr retired as a director on 14 November 2007.
[3] J K Fairley was appointed CEO and Executive Director on 1 July 2006.
[4] D J Owen was appointed VP, Research on 15 February 2007.
[5] R I Berry is President of Dendritic Nanotechnologies Inc, which became a wholly owned subsidiary on 20 October 2006.

2007		Short-term benefits		Post-employment		Long-term benefits	Share-based payment	
Name	Cash salary and fees $	Cash bonus# $	Non-monetary benefits $	Super-annuation $	Retirement Benefits $	Long service leave $	Options# leave $	**Total $**
Non-executive directors								
P T Bartels Chairman	–	–	–	80,000	–	–	–	**80,000**
P M Colman	36,697	–	–	3,303	–	–	–	**40,000**
R Dobinson	40,000	–	–	–	–	–	–	**40,000**
L Gorr	36,697	–	–	3,303	–	–	–	**40,000**
P J Jenkins	36,697	–	–	3,303	–	–	–	**40,000**
R Hazleton[1] (from 1/12/2006–30/6/2007)	23,333	–	–	–	–	–	–	**23,333**
Subtotal non-executive directors	173,424	–	–	89,909	–	–	–	**263,333**
Executive directors								
J W Raff Deputy Chairman[2] (from 1/7/2006–30/6/2007)	19,776	–	664	40,172	140,000	–	–	**200,612**
J K Fairley[3] (from 1/7/2006–30/6/2007)	306,230	–	4,041	43,769	–	964	124,015	**479,019**
Other Key Management Personnel								
B P Rogers	64,159	–	27,354	70,165	–	3,815	10,439	**175,932**
J R Paull	137,210	–	4,115	23,249	–	10,153	13,962	**188,689**
C P Barrett	130,818	–	383	19,182	–	383	18,299	**169,065**
N J Baade	110,005	10,000	7,219	23,559	–	344	10,439	**161,566**
D J Owen[4] (from 15/2/2006–30/6/2007)	43,091	–	–	3,878	–	117	3,393	**50,479**
R I Berry[5] (from 20/10/2006–30/6/2007)	151,797	–	14,488	–	–	–	21,855	**188,140**
T D McCarthy (from 1/7/2006–17/11/2006)	63,216	–	15,802	9,215	–	–	–	**88,233**
G Y Krippner (from 1/7/2006–8/12/2006)	52,176	–	11,933	5,220	–	–	(23,930)	**45,399**
O T Grogan (from 1/7/2006–12/1/2007)	85,964	–	20,427	15,432	–	–	(25,330)	**96,493**
Totals	1,337,866	10,000	106,426	343,750	140,000	15,776	153,142	**2,106,960**

All performance related remuneration, including cash bonuses and options granted are at risk.
1 R Hazleton was appointed non-executive director on 1 December 2006.
2 J W Raff retired as CEO on 1 July 2006 and was appointed Deputy Chairman. $40,000 contributed to J W Raff's superannuation was his Director's remuneration. He was paid $60,627 on retirement for accrued long service leave entitlements.
3 J K Fairley was appointed CEO and Executive Director on 1 July 2006.
4 D J Owen was appointed VP, Research on 15 February 2007.
5 R I Berry is President of Dendritic Nanotechnologies Inc, which became a wholly owned subsidiary on 20 October 2006.

C. Service Agreements

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

J K Fairley **Chief Executive Officer**
- No fixed term of agreement
- Base salary, inclusive of superannuation, per annum as at 30 June 2008 of $350,000, to be reviewed annually by the remuneration committee.
- A maximum cash bonus of $150,000 per year, commencing on 1 July 2008 allocated proportionately on the achievement of predetermined objectives.
- The Remuneration & Nomination Committee is in the process of developing a specific long term incentive plan for Dr Fairley. Shareholder approval for this plan will be sought once agreement has been reached on the quantum and relevance of performance hurdles.
- Fringe benefits – 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 be a court of a criminal offence.

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

B P Rogers **Company Secretary and Chief Financial Officer**
- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 30 June 2008 of $165,500, to be reviewed annually by the remuneration committee.
- Fringe benefits – 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 2008 of $185,500, to be reviewed annually by the remuneration committee.
- Fringe benefits – 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 2008 of $190,000, to be reviewed annually by the remuneration committee.
- Subject to termination at any time by:
  - (i) the Executive giving to the Company not less than two months written notice; or
  - (ii) the Company giving to the Executive written notice, or payment in lieu of that notice, which notice period shall be four months.
- The Executive's employment may be terminated by the Company at any time without notice for serious breach of obligations to the employer, wilful neglect of duty, serious misconduct or bankruptcy.

D J Owen VP – Research

- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 30 June 2008 of $150,000, to be reviewed annually by the remuneration committee.
- Subject to termination at any time by:
  - (i) the Executive giving to the Company not less than three months written notice; or
  - (ii) the Company giving to the Executive written notice, or payment in lieu of that notice, which notice period shall be three months.
- The Executive's employment may be terminated by the Company at any time without notice for serious breach of obligations to the employer, wilful neglect of duty, serious misconduct or bankruptcy.

N J Baade Financial Controller

- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 30 June 2008 of $155,000, to be reviewed annually by the remuneration committee.
- Subject to termination at any time by:
  - (i) the Executive giving to the Company not less than two months written notice; or
  - (ii) the Company giving to the Executive written notice, or payment in lieu of that notice, which notice period shall be four months.
- The Executive's employment may be terminated by the Company at any time without notice for serious breach of obligations to the employer, wilful neglect of duty, serious misconduct or bankruptcy.

D. Share-based compensation

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

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

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

Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
8 February 2004	8 February 2009	$0.94	$0.46	9 February 2006
4 July 2005	4 July 2010	$0.94	$0.15	5 July 2007
18 July 2005	18 July 2010	$0.94	$0.16	19 July 2007
6 October 2006	6 October 2010	$0.50	$0.24	6 October 2008
17 November 2006	30 June 2009	$0.45	$0.20	1 July 2007
4 April 2007	4 April 2011	$0.50	$0.14	4 April 2009
14 November 2007	4 April 2011	$0.50	$0.16	4 April 2009
14 November 2007	8 August 2011	$0.50	$0.17	8 August 2009

Options granted under the Plan carry no dividend or voting rights.
The weighted average remaining contractual life of share options outstanding at the end of the period was 2.10 years (2007: 2.78 years).

Fair value of options granted

The weighted average assessed fair value at grant date of options granted to key management personnel during the year ended 30 June 2008 was $0.18 per option (2007: $0.21). The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option.

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

D. Share-based compensation

Options granted to each director of the company and the key management personnel of the group during the year ended 30 June 2008 and the prior year were:

	2008		2007		
Options granted on:	**14 November 2007**	**14 November 2007**	**6 October 2006**	**17 November 2006**	**4 April 2007**
Number of options granted	150,000	200,000	700,000	500,000	550,000
Expiry date	4 April 2011	8 August 2011	6 October 2010	4 April 2011	4 April 2011
Exercise price	$0.50	$0.50	$0.50	$0.45	$0.50
Expected price volatility of the company's shares	59.8%	59.8%	42.5%	44.0%	38.8%
Risk-free interest rate	6.3%	6.3%	5.5%	5.5%	6.2
Expected dividend yield	–	–	–	–	–
Share price at grant date	$0.39	$0.39	$0.55	$0.45	$0.43
Assessed fair value	$0.16	$0.17	$0.24	$0.20	$0.14

Shares issues on the exercise of options
No shares in Starpharma Holdings Limited have been issued on the exercise of options in either the current or prior year.
Share options granted to directors and key management personnel

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

	Number of options granted during the year		Number of options vested during the year	
Name	**2008**	**2007**	**2008**	**2007**
N J Baade	–	200,000	–	–
C P Barrett	–	200,000	100,000	–
R I Berry	–	250,000	–	–
J K Fairley	350,000	500,000	800,000	–
G Y Krippner	–	100,000	–	–
D J Owen	–	200,000	–	–
J R Paull	–	200,000	–	–
B P Rogers	–	200,000	–	–

The options were granted under the Starpharma Holdings Limited Employee Share Option Plan on the dates indicated. Details of options granted to the directors and the five most highly remunerated officers of the Group can be found in section D of the remuneration report on page 23. No options have been granted to directors or key management personnel since the end of the year.

No other directors or key management personnel hold options under the Plan.

E. Additional Information

Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance.

Policies are structured to reward performance that could reasonably be expected to increase shareholder value, and the performance of the Company over the current and prior year is taken into account in determining overall levels of executive reward. As the company is in a research and development phase and is not generating significant earnings, service agreements for executives do not include pre-determined bonus or share option allocations, except for the CEO. Bonuses may be awarded or options offered for outstanding performance that contributes to achievement of specific milestones. Further details of the company's remuneration policy are set out in Section A of the Remuneration Report on page 17 to 18.

Further details relating to options are set out below.

Name	A Remuneration consisting of options	B Value at grant date $	C Value at exercise date $	D Value at lapse date $
N J Baade	–	–	–	–
C P Barrett	–	–	–	–
R I Berry	–	–	–	–
J K Fairley	10.8%	57,022	–	–
D J Owen	–	–	–	–
J R Paull	–	–	–	–
B P Rogers	–	–	–	–

A = The percentage of the value of remuneration consisting of options, based on the value at grant date set out in column B.
B = The value at grant date calculated in accordance with AASB 2 *Share-based payments* of options granted during the year as part of remuneration.
C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year.
D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

Details of remunerations: cash bonuses and options

For each cash bonus and grant of options included in the tables on pages 18 to 25, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses is payable in future years.

The options vest over the specified periods providing vesting criteria are met. No options will vest if the conditions are not satisfied, hence at 30 June 2008 the minimum value of the options yet to vest is nil. The maximum value of the options yet to vest has been determined assuming all conditions are met.

	Cash bonus		Options					
Name	Paid %	Forfeited %	Year Granted	Vested %	Forfeited %	Financial years in which options may vest	Minimum total value of grant yet to vest	Maximum total value of grant yet to vest
N J Baade	100%	–	2008					
			2007	–	–	30/06/2009	Nil	8,630
C P Barrett	100%	–	2008					
			2007	–	–	30/06/2009	Nil	8,630
			2006	100%	–	30/06/2008	Nil	–
R I Berry	–	–	2008					
			2007	–	–	30/06/2009	Nil	8,022
J K Fairley	100%	–	2008	–		30/06/2010	Nil	21,324
			2008	–		30/06/2009	Nil	12,946
			2007	100%	–	30/06/2008	Nil	–
			2006	100%	–	30/06/2008	Nil	–
D J Owen	–	–	2008					
			2007	–	–	30/06/2009	Nil	10,843
J R Paull	100%	–	2008					
			2007	–	–	30/06/2009	Nil	7,524
			2004	100%	–	30/06/2006	Nil	–
B P Rogers	–	–	2008					
			2007	–	–	30/06/2009	Nil	8,630
			2004	100%	–	30/06/2006	Nil	–

Shares under option

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

Date options granted	Expiry date	Issue price of shares	Number under option
6 February 2004	31 December 2008	$0.73	200,000
8 February 2004	8 February 2009	$0.94	358,000
31 December 2004	31 December 2009	$0.94	86,000
4 July 2005	4 July 2010	$0.94	300,000
18 July 2005	18 July 2010	$0.94	100,000
17 November 2006	30 June 2009	$0.45	500,000
6 October 2006	6 October 2010	$0.50	1,038,000
2 January 2007	2 January 2009	$0.52	45,000
2 January 2007	2 January 2011	$0.52	20,000
4 April 2007	4 April 2011	$0.50	590,000
21 August 2007	21 August 2012	$0.43	7,567,119
12 October 2007	31 May 2009	$0.43	10,000
12 October 2007	30 June 2009	$0.43	10,000
12 October 2007	31 July 2009	$0.43	10,000
12 October 2007	31 August 2009	$0.43	10,000
31 October 2007	7 August 2011	$0.50	550,000
14 November 2007	7 August 2011	$0.50	150,000
14 November 2007	8 August 2011	$0.50	200,000
		Total:	**11,744,119**

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

Insurance of officers

During the financial year, Starpharma Holdings Limited arranged to insure the directors and executive officers of the Company and related bodies corporate. The terms of the policy prohibit disclosure of the amount of the premium paid.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Audit & non audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the consolidated entity are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with the advice received from the audit and risk committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

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

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

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

Assurance Services	**2008 $**	2007 $
Audit or review of financial reports of the entity or any entity in the consolidated entity under the *Corporations Act 2001*	**102,684**	107,000
Other assurance services:– Grant reviews & program audits	**22,500**	57,500
Audits performed by other auditors of controlled entities:	**68,186**	74,646

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 28.

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, 29th September 2008

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77
Website:www.pwc.com/au
Telephone 61 3 8603 1000
Facsimile 61 3 8603 1999

Auditor's Independence Declaration

As lead auditor for the audit of Starpharma Holdings Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

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

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

Nadia Carlin

Nadia Carlin
Partner
PricewaterhouseCoopers

Melbourne
29 September 2008

Corporate Governance Statement

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

The Corporate Governance Statement set out below describes the Company's current corporate governance principles and practices which the Board considers to comply with the CGC Recommendations, with the following exceptions:

- Composition of Board committees
- For part of the year (15 November 2007 to 14 April 2008) following the resignation of Mr Leon Gorr the remuneration and nomination committee consisted of two, rather than three members. For the remainder of the year and in all other respects the structure of the committee complied with CGC Recommendation 2.4 (nomination committee) and 8.1 (remuneration committee).
- For part of the year (15 November 2007 to 18 February 2008) following the resignation of Mr Leon Gorr the audit and risk committee consisted of two, rather than three members. For the remainder of the year and in all other respects the structure of the audit committee complied with CGC Recommendation 4.2 (audit committee).

All other practices stated below 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") and senior executives. These delegations are reviewed on an annual basis.

1.1 Board charter

The Board of Starpharma Holdings Limited operates in accordance with the charter 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 Responsibilities

The responsibilities of the Board include:

- Contributing to the development of and approving the corporate strategy;
- Reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives;
- Overseeing and monitoring organisational performance and the achievement of the Group's strategic goals and objectives;
- Monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Company's auditors;
- Appointment, performance assessment and, if necessary, removal of the CEO;
- Ratifying the appointment and, if necessary, the removal of senior executives;
- Ensuring there are effective management processes in place and approving major corporate initiatives;
- Enhancing and protecting the reputation of the Group;
- Overseeing the operation of the Group, including its systems for control, accountability, and risk management;
- Reporting to shareholders.

1.The Board of Directors

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 five non-executive directors, four of whom are deemed independent under the principles set out below, and one executive director at the date of signing the directors' report.

The Board seeks to ensure that:

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

1.3 Directors' independence

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

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

Materiality for the purposes of applying these criteria is determined on both quantitative and qualitative bases. An amount of 5% of the individual director's net worth is considered material, and in addition a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance. A substantial shareholder for the purposes of applying these criteria is a person with a substantial shareholding as defined in section 9 of the *Corporations Act.*

The Company has also considered directors' periods of service on the board, particularly in the context of the long term nature of the Company's research, development and commercialisation activities, and has concluded that length of service does not, and should not reasonably be perceived to, adversely impact upon a director's ability to act in the best interests of the company.

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

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 CEO is responsible for implementing Company strategies and policies. The Board policy is for these separate roles to be undertaken by separate people.

1.6 Commitment

The Board held seven meetings during the year. Meetings are usually held at the Company's corporate offices and laboratory facility in the Baker Building, 75 Commercial Road, Melbourne, Australia. The number of meeting of the Board and of each Board committee held during the year ended 30 June 2008, 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. The CEO's performance is assessed taking into account attainment of predetermined targets or goals based on various financial and other measurable indicators related to the Company. The CEO meets with the remuneration and nomination committee annually to discuss attainment of key performance indicators of both the CEO and the senior management team.

2. Corporate reporting

The Company prepares audited financial statements for each year ending 30 June, and reviewed financial statements for each half year period ending 31 December. In accordance with ASX Listing Requirements the annual financial statements (preliminary final report) is lodged with the ASX by 31 August, and half year statements are lodged with the ASX by 28 February each year.

The CEO and the CFO have made the following certifications to the Board:
– 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 and 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. Minutes of committee meetings are tabled at subsequent Board meeting, and 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 audit and risk committee consists of the following independent non-executive directors:

Mr Ross Dobinson (Chairman)
Mr Peter Bartels (from 19 February 2008)
Dr Peter Jenkins

Mr Leon Gorr was a member until his resignation as a director on 14 November 2007.

Details of these directors' qualifications and attendance at committee meetings are set out in the directors' report pages 13 to 16.

The audit and risk committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industry in which the Group operates.

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

3.2 Remuneration and nomination committee

The remuneration and nomination committee consists of the following independent non-executive directors:

Mr Ross Dobinson (Chairman)
Mr Peter Bartels
Mr Richard Hazleton (from 14 April 2008)

Mr Leon Gorr was a member until his resignation as a director on 14 November 2007.

Details of these directors' attendance at committee meetings are set out in the directors' report on page 16.

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

When the need for a new director is identified or an existing director is required to stand for re-election, the committee reviews the range of skills, experience and expertise on the board, identifies its needs and prepares a short-list of candidates with appropriate skills and experience. Where necessary, advice is sought from independent search consultants.

Each member of the senior executive team has signed a formal employment contract covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. Each contract refers to a specific formal position description which is reviewed by the committee as necessary in consultation with the CEO and relevant executive.

The remuneration and nomination committee's terms of reference include responsibility for reviewing any transaction between the organisation and the directors, or any interest associated with the directors, to ensure the structure and the terms of the transaction are in compliance with the *Corporations Act 2001* and are appropriately disclosed.

The Remuneration Report is set out on pages 17 to 25.

3.3 Research committee

For part of the year (1 July 2007 to 11 February 2008) the research committee consisted of the following directors:

Dr Peter Jenkins (Chairman)
Independent non-executive director

Prof Peter Colman
Independent non-executive director

Dr Jackie Fairley
Chief Executive Officer and director

Following the resignation of Prof Peter Colman the board reviewed the need for a research committee and determined that the future needs of the Company would be better served by periodic scientific reviews involving non-executive directors together with scientific advisors. Prof Colman was subsequently appointed as a scientific adviser to the Company on a consultancy basis.

4. External auditors

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

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in note 29 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 risk management policy, which is available on the Company website, sets out the responsibilities and authorities of the Board, the audit and risk committee, the CEO and Company Secretary, and the senior management team. The CEO and Company Secretary are responsible to the Board for the overall implementation of the risk management program.

6. The environment, occupational health and safety

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

The Company has adopted an OH&S Policy and has established OH&S committees at each of its sites as part of its overall approach to workplace safety. These committees provide a forum for management and employees to consult on health and safety matters. The primary role of the committees is to coordinate the development and implementation of OH&S policy and procedures, to consider any work related safety matters or incidents, and to ensure compliance with relevant legislation and guidelines.

Each committee includes representatives of executive management and members representing each operational area generally in proportion to the number of people working in the area and the perceived safety risks associated with working in that area. The OH&S committees meet on a monthly basis.

7. Code of conduct

The directors are committed to the principles underpinning best practice in corporate governance, with a commitment to the highest standards of legislative compliance and financial and ethical behaviour. The Company has adopted 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 purchase and sale of Company securities by directors, executives and employees is only permitted (subject also to complying with applicable laws) during the thirty day period following the annual general meeting and the release to the market of the half yearly and annual financial results, unless prior approval is given to each transaction by the Chairman.

Except with the prior approval of the Chairman, no director or executive may enter into any transaction which would have the effect of hedging or otherwise transferring to any other person the risk of any fluctuation in the value of:

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

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

9. Continuous disclosure and shareholder communication

The 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).

Annual Financial Report

Contents

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

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

Its registered office and principal place of business is:

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

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities on pages 1 to 10 and in the directors' report on pages 11 to 27, both of which are not part of this financial report.

The financial report was authorised for issue by the directors on 29th September 2008. The directors have the power to amend and reissue the financial report.

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

Income statements

For the year ended 30 June 2008

	Notes	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Revenue from continuing operations	5	**1,709**	1,463	**414**	581
Other income	5	**8,212**	8,091	**–**	–
Administration expense		**(5,816)**	(5,325)	**(2,661)**	(1,900)
Research and development expense		**(12,224)**	(11,985)	**–**	–
Provision for impairment of receivables	10	**–**	–	**(3,758)**	(4,443)
Finance costs		**(27)**	(33)	**–**	–
Impairment of financial assets	33	**(76)**	–	**(40)**	–
Share of results of associates accounted for using the equity method	33	**–**	(178)	**–**	–
Loss before income tax		**(8,222)**	(7,967)	**(6,045)**	(5,762)
Income tax credit	7	**731**	722	**–**	–
Loss attributable to members of Starpharma Holdings Limited		**(7,491)**	(7,245)	**(6,045)**	(5,762)

Loss per share for loss from continuing operations attributable to ordinary equity holders of the company	Notes	Consolidated 2008	Consolidated 2007
Basic loss per share	37	**($0.04)**	($0.04)
Diluted loss per share		**($0.04)**	($0.04)

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

Balance Sheets

As at 30 June 2008

	Notes	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Current Assets					
Cash and cash equivalents	8	**7,482**	10,073	**2,420**	5,584
Trade and other receivables	9	**1,773**	1,335	**197**	1,436
Total current assets		**9,255**	11,408	**2,617**	7,020
Non-current assets					
Receivables	10	**–**	–	**2,631**	–
Property, plant and equipment	11	**758**	1,111	**–**	–
Intangible assets	12	**14,640**	17,786	**3,144**	3,689
Investments accounted for using the equity method	13	**–**	76	**–**	–
Deferred tax assets	14	**–**	43	**–**	–
Other financial assets	15	**–**	–	**16,252**	16,292
Total non-current assets		**15,398**	19,016	**22,027**	19,981
Total assets		**24,653**	30,424	**24,644**	27,001
Current Liabilities					
Trade and other payables	16	**1,623**	1,855	**1,477**	1,370
Borrowings	17	**124**	69	**–**	–
Provisions	18	**417**	356	**–**	–
Deferred income	19	**1,551**	980	**–**	–
Total current liabilities		**3,715**	3,260	**1,477**	1,370
Non-current liabilities					
Borrowings	20	**293**	260	**–**	–
Provisions	21	**37**	57	**–**	–
Deferred income	22	**97**	169	**–**	–
Deferred tax liabilities	23	**128**	954	**–**	–
Total non-current liabilities		**555**	1,440	**–**	–
Total liabilities		**4,270**	4,700	**1,477**	1,370
Net assets		**20,383**	25,724	**23,167**	25,631
Equity					
Contributed equity	24	**78,667**	76,227	**78,667**	76,227
Reserves	25	**1,009**	1,299	**1,838**	697
Accumulated losses	26	**(59,293)**	(51,802)	**(57,338)**	(51,293)
Total equity		**20,383**	25,724	**23,167**	25,631

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

Statements of changes in equity

For the year ended 30 June 2008

	Notes	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Total equity at the beginning of the year		**25,724**	21,316	**25,631**	20,267
Exchange differences on translation of foreign operations	25	**(1,532)**	(1,688)	**–**	–
Revaluation of identifiable net assets of an associate on acquisition of remaining assets	25	**–**	2,215	**–**	–
Net income recognised directly in equity		**(1,532)**	527	**–**	–
Loss for the year		**(7,491)**	(7,245)	**(6,045)**	(5,762)
Total recognised income and expense for the year		**(9,023)**	(6,718)	**(6,045)**	(5,762)
Transactions with equity holders in their capacity as equity holders:					
Share based payments	25	**209**	275	**108**	275
Fair value of options granted In private placement	25	**1,033**	–	**1,033**	–
Contributions of equity, net of transaction costs	24	**2,440**	10,851	**2,440**	10,851
Total equity at the end of the year		**20,383**	25,724	**23,167**	25,631

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

Cash flow Statements

For the year ended 30 June 2008

	Notes	Consolidated		Parent	
		2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Cash flow from operating activities					
Receipts from trade and other debtors		**1,168**	1,042	**–**	–
Grant income (inclusive of GST)		**8,566**	10,567	**–**	–
Payments to suppliers and employees (inclusive of GST)		**(15,357)**	(15,590)	**(1,667)**	(1,463)
Interest received		**298**	636	**235**	545
Interest paid		**(27)**	(35)	**–**	–
Net cash outflows from operating activities	35	**(5,352)**	(3,380)	**(1,432)**	(918)
Cash flow from investing activities					
Loans advanced to subsidiaries		**–**	–	**(4,897)**	(5,597)
Loans advanced from subsidiaries		**–**	–	**–**	–
Receipts from property, plant and equipment		**–**	1	**–**	–
Payments for property, plant and equipment		**(36)**	(182)	**–**	–
Payments for transaction costs on acquisition of subsidiary (net of cash acquired)	27	**–**	(91)	**–**	(232)
Net cash outflows from investing activities		**(36)**	(272)	**(4,897)**	(5,829)
Cash flow from financing activities					
Proceeds from issue of shares and options		**3,817**	–	**3,817**	–
Share issue transaction costs		**(344)**	–	**(344)**	–
Lease repayments		**(75)**	(127)	**–**	–
Net cash inflows / (outflows) from financing activities		**3,398**	(127)	**3,473**	–
Net decrease in cash and cash equivalents held		**(1,990)**	(3,779)	**(2,856)**	(6,747)
Cash and cash equivalents at the beginning of the period		**10,073**	14,284	**5,584**	12,361
Effects of exchange rate changes on cash and cash equivalents		**(601)**	(432)	**(308)**	(30)
Cash and cash equivalents at the end of the period		**7,482**	10,073	**2,420**	5,584

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

Notes to the financial statements

30 June 2008

Contents

1. Summary of significant accounting policies

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

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards ("AIFRS"), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial report of Starpharma Holdings Limited complies with International Financial Reporting Standards (IFRS).

Historical cost convention

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

Critical accounting estimates

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

For the year ended 30 June 2008, the consolidated entity has incurred losses of $7,491,000 (2007: $7,245,000) and experienced net cash outflows of $5,352,000 from operations (2007: $3,380,000), as disclosed in the balance sheet and cash flow statement, respectively. This is consistent with the consolidated entity's strategic plans and budget estimates, and the directors are satisfied regarding the availability of working capital (including ongoing royalty revenue and the remaining balance of the contracted NIH grant funding) for the period up to at least October 2009. 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 company") as at 30 June 2008 and the results of all subsidiaries for the year then ended. Starpharma Holdings Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(i)).

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

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

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

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

1. Summary of significant accounting policies

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

(d) Foreign currency translation

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

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

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

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

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

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

All revenue is stated net of the amount of Goods and Services Tax (GST).

(f) Government Grants
Government grants include contract income awarded by government bodies for research and development projects.

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Starpharma Holdings Limited and its wholly-owned Australian controlled entities have not implemented the tax consolidation legislation.

(h) Leases
Leases of plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases (note 31). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance cost. The finance cost

is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 31). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease term. Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

(i) Business combinations
The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(p)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

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

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

(l) Trade Receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

(m) Investments and other financial assets

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

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

1. Summary of significant accounting policies

(n) Property, Plant and Equipment
Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of the residual values, over their estimated useful lives. The expected useful lives are 2 to 10 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1 (j)).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

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

(p) Intangible Assets

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each company.

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

(iii) Research and development
Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense when it is incurred.

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. To date no development costs have been capitalised.

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

(r) Borrowings
Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(s) Provisions
Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events when it is more probable than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate for the expenditure required to settle the present obligation at the balance date. The discount rate used to determine the present value reflects current market assessment at the time, value of money, and the risks specific to liability. The increase of the provision due to the passage of time is recognised as interest expense.

(t) Employee benefits

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

(ii) Long service leave
The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Superannuation
Group companies make the statutory superannuation guarantee contribution in respect of each employee to their nominated complying superannuation fund. In certain circumstances pursuant to an employee's employment contract the Group companies may also be required to make additional superannuation contributions and/or agree to make salary sacrifice superannuation contributions in addition to the statutory guarantee contribution. The Group's legal or constructive obligation is limited to the above contributions.

Contributions to the employees' superannuation plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available.

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

(v) Share-based payments
Share-based compensation benefits are offered to the directors and employees via the Starpharma Holdings Limited Employee Share Option Plan ("SPLAM"). Information relating to these plans is set out in note 38 and section D of the Remuneration report under the Directors' Report.

The fair value of options granted under SPLAM is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using a Black-Scholes option model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised in each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

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

(vii) Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than12 months after reporting date are discounted to present value.

(u) Contributed equity
Ordinary shares are classified as equity.

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

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

(w) Earnings per share

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

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

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

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

1. Summary of significant accounting policies

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

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

(z) New accounting standards and interpretations
Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

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

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

(ii) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and - when adopted - will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group, as the Group already capitalises borrowing costs relating to qualifying assets.

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

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

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

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

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

Revised accounting standards for business combinations and consolidated financial statements were issued in March 2008 and are operative for annual reporting periods beginning on or after 1 July 2009, but may applied earlier. The Group has not yet decided when it will apply the revised standards. However, the new rules generally apply only prospectively to transactions that occur after the application date of the standard. Their impact will therefore depend on whether the Group will enter into any business combinations or other transactions that affect the level of ownership held in the controlled entities in the year of initial application. For example, under the new rules:

- all payments (including contingent consideration) to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments subsequently remeasured at fair value through income
- all transaction cost will be expensed
- the Group will need to decide whether to continue calculating goodwill based only on the parent's share of net assets or whether to recognise goodwill also in relation to the non-controlling (minority) interest, and
- when control is lost, any continuing ownership interest in the entity will be remeasured to fair value and a gain or loss recognised in profit or loss.

(vi) Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
In May 2008, the IASB made amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements. The new rules will apply to financial reporting periods commencing on or after 1 January 2009. Amendments to the corresponding Australian Accounting Standards are expected to be issued shortly. After application of these revised rules, all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, but the investments may need to be tested for impairment as a result of the dividend payment. Furthermore, when a new intermediate parent entity is created in internal reorganisations it will measure its investment in subsidiaries at the carrying amounts of the net assets of the subsidiary rather than the subsidiary's fair value.

2. Financial risk management

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

a) Market risk

(i) Foreign Exchange Risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to major currencies including the US dollar. On the basis of the nature of these transactions, the Group does not use derivative financial instruments to hedge such exposures, but maintains cash and deposits in both Australian and US dollars. The directors are regularly monitoring the potential impact of movements in foreign exchange exposure.

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

	Consolidated		Parent	
	2008 US $'000	2007 US $'000	**2008 US $'000**	**2007 US $'000**
Cash and cash equivalents	**6,313**	4,309	**2,172**	**1,209**
Trade and other receivables	**1,515**	851	**–**	**–**
Receivables - intercompany loans	**–**	–	**2,279**	**1,028**
Trade and other payables	**1,097**	874	**5**	**24**
Deferred Income	**1,423**	711	**–**	**–**

Group and Parent Sensitivity

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

	Consolidated		Parent	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Impact on profit / (loss) on a movement of the US Dollar:				
Australian dollar strengthens (increases) against the US Dollar by 10%	**(501)**	(383)	**11**	(17)
Australian dollar weakens (decreases) against the US Dollar by 10%	**613**	468	**13**	21

(ii) Fair Value Interest Rate Risk

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

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

	Consolidated		Parent	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Deposits at call	**2,976**	6,054	**2,407**	5,523

2. Financial risk management

Group and Parent Sensitivity
At 30 June 2008, 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 $17,000 higher or lower (2007 - change of 50 bps: $32,000 higher/lower) due to either higher or lower interest income from cash or cash equivalents. The Parent's profit for the year would have been $12,000 higher or lower (2007 - change of 50 bps: $28,000 higher/lower).

(b) Credit risk
The Group has no significant concentrations of credit risk as it does not have significant third party receivables other than under government funded research and development programs and royalty receivables from large, well respected companies.

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

(d) Fair value estimation
The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives and investments in unlisted subsidiaries) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

3. Critical accounting estimates and judgments

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

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

i) Amortisation of finite life intangible assets
The Group's management determines the estimated life of the patents underlying the core technology of the business and calculates amortisation accordingly. The estimate is based on the period of expected benefit which currently stands at 4–15 years. This could change as a result of technical innovations or competitor actions in response to severe industry cycles. Management will increase amortisation charges when the useful lives are less than previously estimated lives. The carrying value of intangible assets at 30 June 2008 is $14,640,000 (2007: $17,786,000).

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

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

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

(b) Critical accounting judgments in applying accounting policies

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

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

4. Segment information

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

Geographic Segment
The consolidated entity operates in Australia, with the exception of Dendritic Nanotechnologies Inc. ("DNT") which operates in the United States of America ("USA"). The results of DNT were accounted for by the equity method up until it became a wholly owned subsidiary of the consolidated group.

Following the 100% acquisition of DNT, it has been determined that on the basis of monitoring of the USA operations, these operations represent a separate geographical segment. In prior periods, the results of DNT were equity accounted.

Secondary reporting format-geographical segments

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

Secondary reporting format-geographical segments

2007	Australia $'000	USA $'000	Inter-segment Eliminations $'000	**Total $'000**
Revenue and other income	8,363	1,246	(55)	**9,554**
Expenses	(13,993)	(3,405)	55	**(17,343)**
	(5,630)	(2,159)	–	**(7,789)**
Share of results of associates				**(178)**
Loss before income tax				**(7,967)**
Segment net assets	13,354	12,405	(35)	**25,724**

5. Revenue

Revenue and Other Income	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Royalty, Customer & License revenue	**1,408**	860	**–**	–
Interest Revenue	**297**	599	**414**	581
Other Revenue	**4**	4	**–**	–
Total Revenue	**1,709**	1,463	**414**	581
Australian Government Grants	**108**	276	**–**	–
USA Government Grants	**8,104**	7,815	**–**	–
Total Other Income	**8,212**	8,091	**–**	–
Total Revenue and Other Income	**9,921**	9,554	**414**	581

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

6. Expenses

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Loss from ordinary activities before income tax expense includes the following items:				
Depreciation	**553**	647	**–**	–
Amortisation	**1,546**	1,373	**545**	398
Rental expense on operating leases	**521**	441	**–**	–
Defined contribution superannuation expense	**591**	575	**127**	130

7. Income tax expense

	Notes	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
a) Income tax expense/(credit)					
Current Tax			–	–	–
Deferred Tax		**(731)**	(722)	–	–
		(731)	(722)	–	–
Income tax expense is attributable to:					
Profit from continuing operations		**(731)**	(722)	–	–
Profit from discontinued operations		–	–	–	–
Aggregate income credit		**(731)**	(722)	–	–
Deferred income tax credit included in income tax expenses comprises:					
(Decrease) in deferred tax liabilities	23	**(731)**	(722)	–	–
		(731)	(722)	–	–
b) Numerical reconciliation to income tax prima facie tax payable					
Loss from continuing operations before income tax		**(8,222)**	(7,967)	**(6,045)**	(5,762)
Tax at the Australian tax rate of 30%		**(2,467)**	(2,390)	**(1,814)**	(1,729)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income					
Equity accounted loss		–	81	–	–
Write down in carrying value of investments		**23**	–	–	–
Gain in dilution of equity investments		–	(28)	–	–
Write down in carrying value of loans		–	–	**1,127**	1,333
Share-based payments		**61**	83	**30**	–
Difference in overseas tax rates		**44**	87	–	–
Future income tax benefits not brought to account		**1,608**	1,445	**657**	396
Income tax credit		**(731)**	(722)	–	–

c) Amounts recognised directly in equity

Reduction of deferred tax liabilities of $267,000 (2007: $131,000) arising due to foreign exchange movements have been recognised within the foreign currency translation reserve in equity.

	Notes	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
d) Tax losses					
Unused tax losses for which no deferred tax asset has been recognised (as recovery is currently not probable)		**49,740**	43,415	**5,309**	3,284
Potential tax benefit		**14,922**	13,024	**1,593**	985
e) Unrecognised temporary differences					
Temporary differences for which no deferred tax asset has been recognised as recoverability is not probable		**2,570**	2,577	**406**	588
Unrecognised deferred tax relating to the temporary differences		**771**	773	**122**	176

7. Income tax expense

Potential future income tax benefits attributable to tax losses carried forward have not been brought to account at 30 June 2008 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 made an assessment as to the satisfaction of deductibility conditions at 30 June 2006, however no such similar assessment has been performed at 30 June 2007 or 30 June 2008.

8. Current assets – Cash and cash equivalents

	Consolidated		**Parent Entity**	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Cash at bank and on hand	**4,506**	4,019	**13**	61
Deposits at call	**2,976**	6,054	**2,407**	5,523
	7,482	10,073	**2,420**	5,584

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 1.25% to 7.59% (2007: 6.10% to 6.26%). These deposits are of 30 day maturities.

Cash not available
There is $260,000 of cash not available for use due to restrictions associated with a finance lease which is guaranteed by term deposit (2007: $329,000).

Interest rate risk

30 June 2008		**Floating Interest rate**	**Fixed interest maturing**								
Financial Assets	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**
Cash and deposits	8	395	2,976	–	–	–	–	–	4,111	**7,482**	**N/A**
Receivables	9	–	–	–	–	–	–	–	1,773	**1,773**	**1,773**
		395	2,976	–	–	–	–	–	5,884	**9,255**	**1,773**
Weighted average interest rate		*3.5%*	*2.8%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*		
Financial Liabilities											
Payables and provisions	16/18/21	–	–	–	–	–	–	–	2,076	**2,076**	**2,076**
Borrowings	17/20	–	124	133	160	–	–	–	–	**417**	**417**
Deferred income	19/22	–	–	–	–	–	–	–	1,648	**1,648**	**1,048**
		–	124	133	160	–	–	–	3,724	**4,141**	**4,141**
Weighted average interest rate		*0.0%*	*8.0%*	*8.0%*	*7.8%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*		

30 June 2007		Floating Interest rate	Fixed interest maturing								
Financial Assets	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**
Cash and deposits	8	703	6,054	–	–	–	–	–	3,316	**10,073**	**N/A**
Receivables	9	–	–	–	–	–	–	–	1,335	**1,335**	**1,335**
		703	6,054	–	–	–	–	–	4,651	**11,408**	**1,335**
Weighted average interest rate		*5.0%*	*5.8%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*		
Financial Liabilities											
Payables and provisions	16/18/21	–	–	–	–	–	–	–	2,268	**2,268**	**2,268**
Borrowings	17/20	–	69	73	79	108	–	–	–	**329**	**329**
Deferred income	19/22	–	–	–	–	–	–	–	1,149	**1,149**	**1,149**
		–	69	73	79	108	–	–	3,417	**3,746**	**3,746**
Weighted average interest rate		*0.0%*	*7.2%*	*7.2%*	*7.2%*	*7.2%*	*0.0%*	*0.0%*	*0.0%*		

9. Current assets – Trade and other receivables

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Trade and grant receivable	**1,311**	865	**75**	–
Interest receivable	**2**	14	**–**	58
Prepayments	**370**	436	**48**	64
Loans to controlled entities	**–**	–	**–**	1,254
Other receivables	**90**	20	**74**	60
	1,773	1,335	**197**	1,436

Trade and grant receivables
Trade receivables comprise of customer royalty and licence revenue and are subject to normal terms of settlement within 30 to 90 days. Grant receivables comprise expenditure reimbursable under grants from USA National Institutes of Health ("NIH") and are subject to normal terms of settlement within 30 to 60 days.

Impaired receivables
As at 30 June 2008 there are no receivables aged past due date (2007: nil). Accordingly, no receivables are considered impaired at 30 June 2008 (2007: nil) other than from subsidiaries within the group.

Loans to controlled entities
At 30 June 2008, the directors reclassified the inter-company loan to DNT as a non-current receivable. The terms of the loan agreement are that the principal and accrued interest is currently due at 30 June 2009. At 30 June 2007 the loan was classified as a current asset.

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

10. Non-current assets – Receivables

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Loans to controlled entities	**–**	–	**37,639**	31,250
Impairment provision	**–**	–	**(35,008)**	(31,250)
	–	–	**2,631**	–

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

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

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

Consolidated	**Plant and Equipment $'000**	**Leasehold improvements $'000**	**Plant and Equipment under finance lease $'000**	**Total Plant and Equipment $'000**
At 30 June 2006				
Cost	1,947	1,136	758	3,841
Accumulated depreciation and amortisation	(1,346)	(753)	(311)	(2,410)
Net book amount	601	383	447	1,431
Year ended 30 June 2007				
Opening net book amount	601	383	447	1,431
Exchange differences	(7)	–	–	(7)
Acquisition of subsidiary	151	–	–	151
Additions	180	5	–	185
Disposals	(2)	–	–	(2)
Depreciation and amortisation	(303)	(193)	(151)	(647)
Closing net book amount	620	195	296	1,111
At 30 June 2007				
Cost	2,251	1,141	757	4,149
Accumulated depreciation and amortisation	(1,631)	(946)	(461)	(3,038)
Net book amount	620	195	296	1,111
Year ended 30 June 2008				
Opening net book amount	620	195	296	1,111
Exchange differences	(9)			(9)
Additions	36		176	212
Disposals	(3)			(3)
Depreciation and amortisation	(256)	(178)	(119)	(553)
Closing net book amount	388	17	353	758
At 30 June 2008				
Cost	2,270	1,141	614	4,025
Accumulated depreciation and amortisation	(1,882)	(1,124)	(261)	(3,267)
Net book amount	388	17	353	758

The parent entity has no plant and equipment in 2008 (2007: Nil).

12. Non-current assets – Intangible assets

Consolidated	Patents & Licences $'000	Goodwill $'000	Total Intangibles $'000
At 30 June 2006			
Cost	4,374	–	4,374
Accumulated depreciation and amortisation	(287)	–	(287)
Net book amount	4,087	–	4,087
Year ended 30 June 2007			
Opening net book amount	4,087	–	4,087
Acquisition of subsidiary	14,900	1,972	16,872
Exchange differences	(1,583)	(217)	(1,800)
Depreciation and amortisation	(1,373)	–	(1,373)
Closing net book amount	16,031	1,755	17,786
At 30 June 2007			
Cost	17,634	1,755	19,389
Accumulated depreciation and amortisation	(1,603)	–	(1,603)
Net book amount	16,031	1,755	17,786
Year ended 30 June 2008			
Opening net book amount	16,031	1,755	17,786
Exchange differences	(1,392)	(208)	(1,600)
Depreciation and amortisation	(1,546)	–	(1,546)
Closing net book amount	13,093	1,547	14,640
At 30 June 2008			
Cost	16,065	1,547	17,612
Accumulated depreciation and amortisation	(2,972)	–	(2,972)
Net book amount	13,093	1,547	14,640

Identifiable intangible assets with finite lives are carried at cost less accumulated amortisation and adjusted for any accumulated impairment loss. The assets are assessed at each reporting date as to whether there is any indication that the asset is impaired.

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 operates in one business segment being the discovery, development and commercialisation of dendrimers for pharmaceutical and other life science applications. Following the acquisition of the DNT business during 2007, the Group has operations in both Australia and the United States – these geographical segments are also determined to be the Cash Generating Units (CGUs) of the Starpharma Group.

The directors have determined that the goodwill arising on the acquisition of the remaining share of the DNT business should be allocated across these CGUs as the business combination gives rise to synergies within both Starpharma's Australian operations and the DNT business in the United States. Allocation of the goodwill across geographical segments is considered appropriate as the goodwill is allocated across the same business segment.

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 Starpharma Group. Given the excess of the market capitalisation of Starpharma Holdings Limited over the carrying value of total assets (including goodwill) at 30 June 2008, goodwill is not considered to be impaired at year end.

12. Non-current assets – Intangible assets

Parent	Patents & Licences $'000	Goodwill $'000	Total Intangibles $'000
At 30 June 2006			
Cost	4,374	–	4,374
Accumulated depreciation and amortisation	(287)	–	(287)
Net book amount	4,087	–	4,087
Year ended 30 June 2007			
Opening net book amount	4,087	–	4,087
Depreciation and amortisation	(398)	–	(398)
Closing net book amount	3,689	–	3,689
At 30 June 2007			
Cost	4,374	–	4,374
Accumulated depreciation and amortisation	(685)	–	(685)
Net book amount	3,689	–	3,689
Year ended 30 June 2008			
Opening net book amount	3,689	–	3,689
Depreciation and amortisation	(545)	–	(545)
Closing net book amount	3,144	–	3,144
At 30 June 2008			
Cost	4,374	–	4,374
Accumulated depreciation and amortisation	(1,230)	–	(1,230)
Net book amount	3,144	–	3,144

13. Non-current assets – Investments accounted for using the equity method

		Consolidated		Parent Entity	
	Notes	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
Shares in associated entities	33	**–**	76	**–**	–

Shares in associates

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and carried at cost less provision for impairment by the parent entity (refer to note 33).

The carrying value of Dimerix Bioscience Pty Ltd at 30 June 2008 has been written down to Nil (2007: $76,000) with a $76,000 impairment charge to profit and loss.

14. Non-current assets – Deferred tax assets

	Consolidated		Parent	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Temporary differences recognised on the acquisition of subsidiary during the year	**–**	43	**–**	–
Total deferred tax asset	**–**	43	**–**	–

The Group has future income tax benefits not brought to account at balance date because the directors do not believe it is probable that the benefit of these losses will be realised in the near future. Refer to note 7 for additional detail on unused tax losses.

15. Non-current assets – Other financial assets

		Consolidated		Parent Entity	
	Notes	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
Other non-traded investments					
Shares in controlled entities	32	**–**	–	**33,752**	33,752
Provision for impairment in value		**–**	–	**(17,500)**	(17,500)
Shares in associated entities	33	**–**	–	**–**	40
		–	–	**16,252**	16,292

At 30 June 2008 and 2007, the directors undertook to assess the recoverable amount of the parent entity's investments in its subsidiaries. Each subsidiary has a value which is directly linked to the potential cash flows which may be derived from the outcome of their respective research and development activities. At 30 June 2008 and 2007, the directors have assessed that there is not sufficient certainty with respect to those potential future cash flows to warrant the deferral of research and development expenditure (the recovery of which is not assured beyond reasonable doubt) and similarly, to support the carrying value of the parent entity's investments in its subsidiaries. As a result the carrying values of the parent entity's investments in its subsidiaries, excluding DNT, remain written down to nil as at 30 June 2008 and 2007.

16. Current liabilities – Trade and other payables

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Trade creditors	**1,623**	1,855	**823**	716
Loans from controlled entities	**–**	–	**654**	654
	1,623	1,855	**1,477**	1,370

17. Current liabilities – Borrowings

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Finance lease liability (secured)	**124**	69	**–**	–

Details of the security relating to each of the secured liabilities are set out in Note 20.

18. Current liabilities – Provisions

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Employee entitlements	**417**	356	**–**	–

19. Current liabilities – Deferred income

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Deferred income	**1,551**	980	**–**	–

20. Non-current liabilities – Borrowings

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Finance lease liability (secured)	**293**	260	**–**	–

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 $417,000 at 30 June 2008 (2007: $329,000).

20. Non-current liabilities – Borrowings

2008	Notes	Floating Interest rate	Fixed interest rate 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	17/20/31		124	133	160				**417**
Weighed average interest rate		–	*8.0%*	*8.0%*	*7.8%*	–	–	–	

2007	Notes	Floating Interest rate	Fixed interest rate 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	17/20/31	–	69	73	79	108	–	–	**329**
Weighed average interest rate		–	*7.2%*	*7.2%*	*7.2%*	*7.2%*	–	–-	

21. Non-current liabilities – Provisions

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Employee entitlements	**37**	57	**–**	–

22. Non-current liabilities – Deferred income

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Deferred income	**97**	169	**–**	–

23. Non-current liabilities – Deferred tax liabilities

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Balance at 1 July	**954**	–	**–**	–
Recognised during the year on the acquisition of subsidiary due to the difference in fair value of intangible asset and its tax base	**–**	3,178	**–**	–
Offset of deferred tax asset arising from tax losses on acquisition	**–**	(1,371)	**–**	–
Reduction in deferred tax liability arising from			**–**	–
Amortisation of intangible asset	**(241)**	(325)	**–**	–
Impacts of foreign exchange	**(95)**	(131)	**–**	–
Offset of deferred tax asset arising from post acquisition tax losses	**(490)**	(397)	**–**	–
Net deferred tax liability	**128**	954	**–**	–

24. Contributed equity

(a) Share Capital

	Parent Entity		Parent Entity	
	2008 Shares	2007 Shares	**2008 $'000**	2007 $'000
Share Capital				
Ordinary shares – fully paid	**179,715,153**	167,833,986	**78,667**	76,227

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue Price	$'000
1-Jul-06	Opening Balance	147,739,245		**65,376**
20-Oct-06	DNT acquisition share placement	20,094,741	$0.54	**10,851**
	Balance at 30 June 2007	167,833,986		**76,227**
22-Aug-07	Share Placement	11,881,167	$0.32[1]	**2,784**
	less Transaction costs			**(344)**
	Balance at 30 June 2008	179,715,153		**78,667**

[1] Shares with unlisted options attached were issued at a price of $0.32. The fair value of the options of $1,033,000 has been taken to reserves.

c) Ordinary shares
As at 30 June 2008 there were 179,715,153 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.

(d) Options
Information relating to the Starpharma Holdings Limited Employee Share Option Plan and Individual option deeds, including details of options issued, exercised and expired during the financial year and options outstanding at the end of the financial year are set out in Note 38.

(e) 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.

25. Reserves

(a) Reserves

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
Share-based payments reserve	**1,939**	697	**1,838**	697
Foreign currency translation reserve	**(3,145)**	(1,613)	**–**	–
Asset revaluation reserve	**2,215**	2,215	**–**	–
	1,009	1,299	**1,838**	697

(b) Movement in reserves

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
Share-based payments reserve				
Balance at 1 July	**697**	422	**697**	422
Fair value of options granted on share placement	**1,033**	–	**1,033**	–
Option expense	**209**	275	**108**	275
Balance at 30 June	**1,939**	697	**1,838**	697
Foreign currency translation reserve				
Balance at 1 July	**(1,613)**	76	**–**	–
Currency translation differences arising during the year	**(1,532)**	(1,689)	**–**	–
Balance at 30 June	**(3,145)**	(1,613)	**–**	–
Asset revaluation reserve				
Balance at 1 July	**2,215**	–	**–**	–
Uplift in fair value of the identifiable net assets of DNT on acquisition of the remaining share in associate have been taken to the asset revaluation reserve	**–**	2,215	**–**	–
Balance at 30 June	**2,215**	2,215	**–**	–

(c) Nature and purpose of reserves

(i) Share-base payments reserve

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

(ii) Foreign currency translation reserve

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

(iii) Asset revaluation reserve

Uplift in fair value of the identifiable net assets of DNT on acquisition of the remaining share in associate.

26. Accumulated Losses

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Accumulated losses balance at 1 July	**(51,802)**	(44,557)	**(51,293)**	(45,531)
Net loss for the year	**(7,491)**	(7,245)	**(6,045)**	(5,762)
Accumulated losses balance at 30 June	**(59,293)**	(51,802)	**(57,338)**	(51,293)

27. Business Combination

(a) Summary of acquisition
On 20 October 2006, Starpharma Holdings Ltd acquired the remaining 67% of equity in Dendritic Nanotechnologies Inc. ("DNT"), an unlisted USA Delaware corporation, located in Michigan State, USA. DNT focuses on dendrimer nanotechnology applications, within the life-science and other sectors. Pre the acquisition, Starpharma Holdings Limited was a 33% shareholder in DNT.

(b) Purchase consideration
The total cost of the acquisition was $11,082,790 comprising the issue of ordinary shares in Starpharma Holdings Limited and the costs directly attributable to the acquisition. The Group issued 20,094,741 shares with a fair value of $0.5400 per share, based on the closing quoted price of Starpharma Holdings Limited shares at the date of the exchange.

(c) Assets and liabilities acquired
The fair value of the identifiable assets and liabilities of DNT as at the date of acquisition were:

	100% Acquiree's carrying value $'000	100% fair value acquired $'000	Recognised on 67% of acquisition $'000
Assets			
Cash and cash equivalents	141	141	95
Trade & other receivables	357	357	240
Other assets	53	53	35
Property, plant & equipment	151	151	101
Intangible assets	5,837	14,900	10,023
Deferred tax asset	–	1,371	919
Liabilities			
Trade & other payables	(158)	(158)	(106)
Other current liabilities	(39)	(39)	(26)
Employee provisions	(61)	(61)	(41)
Deferred tax liability	–	(3,178)	(2,129)
Fair Value of identifiable net assets	6,281	13,537	9,111

Goodwill arising on consolidation	1,972

Cost of the combination:	
Shares issued at fair value	10,851
Costs associated with the acquisition	232
Total cost of the acquisition	11,083

The cash outflow on the acquisition is as follows:	
Net cash acquired with the subsidiary	141
Costs associated with the acquisition	(232)
Net cash outflow	(91)

Prior to the business combination, Starpharma Holdings Limited held a 33% investment in DNT. The identifiable net assets have been uplifted to fair value; this has been recognised through the revaluation reserve.

The intellectual property acquired through the DNT business combination was valued at $14,900,000. The carrying value of $9,949,000 at 30 June 2008 is adjusted for exchange rate movements and is net of amortisation charged from 20 October 2006 to 30 June 2008. Refer to Note 12 Intangible assets for additional detail on the movement and carrying value of intangible assets.

28. Key management personnel disclosures

(a) Directors

The following persons were directors of Starpharma Holdings Limited during the financial year:

Name	Position
P T Bartels	Non-executive Chairman
J K Fairley	Chief Executive Officer and Executive Director
J W Raff	Non-executive Deputy Chairman
R Dobinson	Non-executive
P J Jenkins	Non-executive
R A Hazleton	Non-executive
P M Colman	Non-executive (resigned 11 February 2008)
L Gorr	Non-executive (resigned 14 November 2007)

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position
B P Rogers	Company Secretary and Chief Financial Officer
J R Paull	VP – Development and Regulatory Affairs
C P Barrett	VP – Business Development
N J Baade	Financial Controller
R I Berry	President, DNT
D J Owen	VP – Research

Key management personnel during the year ended 30 June 2007 were:

Name	Position
B P Rogers	Company Secretary and Chief Financial Officer
J R Paull	VP – Development and Regulatory Affairs (Previously VP – Regulatory and Clinical Affairs)
C P Barrett	VP – Business Development
N J Baade	Financial Controller
R I Berry	President, DNT (from 20 October 2006)
D J Owen	VP – Research (from 15 February 2007)
T D McCarthy	VP – Drug Development (until 17 November 2006)
G Y Krippner	Head of Chemistry (until 8 December 2006)
O T Grogan	VP – Commercial Development & Licensing (until 12 January 2007)

28. Key management personnel disclosures

(c) Key management personnel compensation

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Short term employee benefits	**1,511**	1,454	**604**	504
Post employment benefits	**347**	484	**180**	314
Other long term benefits	**11**	16	**–**	1
Share based payments	**147**	153	**23**	124
	2,016	2,107	**807**	943

(d) Equity instrument disclosures relating to key management personnel

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 23 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.

2008	**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**
Name						
Directors of Starpharma Holdings Limited						
J K Fairley	800,000	350,000	–	–	1,150,000	800,000
Other key management personnel of the Group						
B P Rogers	420,000	–	–	–	420,000	220,000
J R Paull	280,000	–	–	–	280,000	80,000
C P Barrett	300,000	–	–	–	300,000	100,000
N J Baade	200,000	–	–	–	200,000	–
R I Berry	250,000	–	–	–	250,000	–
D J Owen	200,000	–	–	–	200,000	–

2007	**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**
Name						
Directors of Starpharma Holdings Limited						
J K Fairley	300,000	500,000	–	–	800,000	–
Other key management personnel of the Group						
B P Rogers	220,000	200,000	–	–	420,000	220,000
J R Paull	100,000	200,000	–	(20,000)	280,000	80,000
C P Barrett	100,000	200,000	–	–	300,000	–
N J Baade	–	200,000	–	–	200,000	–
R I Berry	–	250,000	–	–	250,000	–
D J Owen	–	200,000	–	–	200,000	–
T D McCarthy	200,000	–	–	(200,000)	–	–
G Y Krippner	200,000	100,000	–	(300,000)	–	–
O T Grogan	200,000	–	–	(200,000)	–	–

Share holdings

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

2008

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Starpharma Holdings Limited				
Ordinary Shares				
P T Bartels	109,804	–	20,000	129,804
J K Fairley	30,250	–	23,500	53,750
J W Raff	5,706,689	–	790,185	6,496,874
P M Colman[1]	5,992,286	–	–	5,992,286
R Dobinson	2,720,976	–	(2,720,976)	–
L Gorr[1]	5,204,704	–	–	5,204,704
P J Jenkins	1,635,608	–	(219,608)	1,416,000
R A Hazleton	42,616	–	–	42,616
Other key management personnel of the Group				
Ordinary Shares				
B P Rogers	65,622	–	–	65,622
J R Paull	–	–	–	–
C P Barrett	–	–	–	–
N J Baade	–	–	–	–
R I Berry	70,296	–	–	70,296
D J Owen	–	–	–	–

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

2007

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Starpharma Holdings Limited				
Ordinary Shares				
P T Bartels	109,804	–	–	109,804
J K Fairley	5,000	–	25,250	30,250
J W Raff	5,381,689	–	325,000	5,706,689
P M Colman	5,992,286	–	–	5,992,286
R Dobinson	2,905,976	–	(185,000)	2,720,976
L Gorr	5,204,704	–	–	5,204,704
P J Jenkins	1,635,608	–	–	1,635,608
R A Hazleton	–	–	42,616	42,616

28. Key management personnel disclosures

Other key management personnel of the Group				
Ordinary Shares				
B P Rogers	65,622	–	–	65,622
J R Paull	–	–	–	–
C P Barrett	8,935	–	(8,935)	–
N J Baade	–	–	–	–
R I Berry	–	–	70,296	70,296
D J Owen	–	–	–	–
T D McCarthy[1]	4,000	–	N/A	N/A
G Y Krippner[1]	–	–	N/A	N/A
O T Grogan[1]	–	–	N/A	N/A

[1] At 30 June 2007 these individuals were not key management personnel of the Group.

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

29. Remuneration of auditors

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the consolidated entity are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

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

	Consolidated		Parent Entity	
	2008 $	2007 $	**2008 $**	2007 $
(a) Audit services				
Audit or review of financial reports of the entity or any entity in the consolidated entity				
PricewaterhouseCoopers	**102,684**	107,000	**102,684**	107,000
Other auditors of controlled entities	**68,186**	74,646	**–**	–
Total remuneration for audit services	**170,870**	181,646	**102,684**	107,000
(b) Non-audit services				
Non-audit services: Grant reviews & program audits				
PricewaterhouseCoopers	**22,500**	57,500	**–**	–
Total remuneration for non-audit services	**22,500**	57,500	**–**	–
Total remuneration of auditors	**193,370**	239,146	**102,684**	107,000

30. Contingencies

The Company has no contingent liabilities.

31. Commitments

(a) Capital Commitments

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

	Consolidated		Parent Entity	
Property, plant and equipment	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
Within one year	**19**	–	**–**	–
Later than one year but not later than five years	**–**	–	**–**	–
Later than five years	**–**	–	**–**	–
	19	–	**–**	–

(b) Lease Commitments

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
Not later than one year	**185**	574	**–**	–
Later than one year and not later than five years	**329**	323	**–**	–
Later than five years		–	**–**	–
	514	897	**–**	–
Representing:				
Cancellable operating leases	**97**	568	**–**	–
Non-cancellable finance lease	**466**	378	**–**	–
Future finance charges on finance leases	**(49)**	(49)	**–**	–
	514	897	**–**	–

Operating leases

The Group leases laboratory and offices under a lease until 31 August 2008 and leases various plant and equipment under cancellable operating leases.

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Commitments for minimum lease payments in relation to cancellable operating leases are payable as follows:				
Not later than one year	**61**	505	**–**	–
Later than one year and not later than five years	**36**	63	**–**	–
Later than five years	**–**	–	**–**	–
Representing cancellable operating leases	**97**	568	**–**	–

31. Commitments

Finance Leases

The Group leases plant and equipment with a carrying amount of $417,000 (2007: $329,000) under a finance lease expiring within three years.

		Consolidated		Parent Entity	
Commitments in relation to finance leases are payable as follows:	Notes	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
Not later than one year		**151**	89	**–**	–
Later than one year and not later than five years		**315**	289	**–**	–
Later than five years			–	**–**	–
Minimum lease payments		**466**	378	**–**	–
Future finance charges		**(49)**	(49)	**–**	–
Recognised as a liability		**417**	329	**–**	–
Representing finance lease liabilities:					
Current	17	**124**	69	**–**	–
Non-Current	20	**293**	260	**–**	–
		417	329	**–**	–

The weighted average interest rate implicit in the lease is 7.9% (2007: 7.2%).

(c) Expenditure Commitments

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

(d) Termination Commitments

The service contracts of key management personnel include benefits payable by the Group on termination of the employee's contract. Refer to section C of the remuneration report on pages 22 and 23 for details of these commitments.

32. 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		Cost of Parent Entity's Holding Investment	
Name of entity	Country of Incorporation	Class of Shares	**2008 %**	2007 %	**2008 $'000**	2007 $'000
Starpharma Pty Limited	Australia	Ordinary	**100.00%**	100.00%	**9,900**	9,900
Angiostar Pty Limited	Australia	Ordinary	**100.00%**	100.00%	**3,300**	3,300
Viralstar Pty Limited	Australia	Ordinary	**100.00%**	100.00%	**4,300**	4,300
Preclin Pty Limited	Australia	Ordinary	**100.00%**	100.00%	**–**	–
Dendritic Nanotechnologies Inc.	USA	Ordinary	**100.00%**	100.00%	**16,252**	16,252
					33,752	33,752

33. Investments in associates

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at carrying value by the parent entity. Information relating to the associates is set out below.

(a) Carrying amounts

Name of entity	Notes	Country of Incorporation	Class of Shares	Equity Holding 2008 %	Equity Holding 2007 %	Cost of Parent Entity's Holding Investment 2008 $'000	Cost of Parent Entity's Holding Investment 2007 $' 000
Dimerix Bioscience Pty Ltd		Australia	Ordinary	**8.50%**	8.72%	–	40

(b) Movements in carrying amounts

Movements in carrying amounts of investments in associates	Notes	Consolidated 2008 $'000	Consolidated 2007 $' 000
Carrying amount at the beginning of the financial year		**76**	2,387
Impairment of associate		**(76)**	–
Acquisition of associate previously equity accounted		–	(2,057)
Gain on issue of equity by associate		–	92
Share of losses from ordinary activities after related income tax		–	(270)
Foreign currency reserve	25	–	(76)
Carrying amount at the end of the financial year		–	76

(c) Reserves attributable to associates

Foreign currency reserve	Consolidated 2008 $'000	Consolidated 2007 $'000
Balance at the beginning of the financial year	–	76
Net exchange differences on translation of results of associated entity	–	(76)
Balance at the end of the financial year	–	–

34. Events occurring after the balance sheet date

On 9 September 2008 the Company announced that a full license agreement has been signed with SSL International plc (LSE:SSL) in relation to the VivaGel® coated condom. SSL manufactures and sells Durex® condoms, the market-leading condom brand worldwide. Under the terms of this agreement SSL secures marketing rights to the VivaGel® coated condom in most of the world, including Europe and the USA. In return, Starpharma will receive further milestone payments, development support, and royalties on net sales which Starpharma estimates will exceed $100 million over the life of the agreement.

There are no other significant events occurring since 30 June 2008 that have significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group.

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

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Operating loss after tax:	**(7,491)**	(7,245)	**(6,045)**	(5,762)
Depreciation and amortisation	**2,099**	2,019	**545**	398
Exchange rates movement	**601**	502	**308**	30
Non-cash employee benefits -share-based payments	**209**	275	**108**	–
Change in operating assets and liabilities, net of effects of acquisitions and disposals of entities:				
(Increase) decrease in receivables and other assets	**(370)**	1,848	**(253)**	(88)
(Increase) decrease in deferred tax assets	**43**	(43)	**–**	–
(Decrease) increase in trade creditors	**(232)**	(217)	**107**	61
Increase (decrease) in deferred tax liabilities	**(826)**	(852)	**–**	–
Increase (decrease) in employee provisions	**40**	(87)	**–**	–
Increase in deferred income	**499**	246	**–**	–
Share in results of associates	**–**	178	**–**	–
Gain on sale of property, plant and equipment	**–**	(4)	**–**	–
Impairment of financial asset	**76**	–	**40**	–
Provision for doubtful debts	**–**	–	**3,758**	4,443
Net cash outflows from operating activities	**(5,352)**	(3,380)	**(1,432)**	(918)

36. Non–cash financing activities

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Acquisition of property, plant and equipment by means of equipment loan	**176**	–	**–**	–
Outright acquisition of associate by means of share issue	**–**	10,851	**–**	10,851
	176	10,851	**–**	10,851

37. Earnings per share

	Consolidated	
	2008 $	2007 $
Basic loss per share	**(0.04)**	(0.04)
Diluted loss per share	**(0.04)**	(0.04)
Net loss attributable to members of Starpharma Holdings Ltd used as the numerator in calculating diluted and basic earnings per share ($'000)	**(7,491)**	(7,245)
Weighted average number of ordinary shares outstanding during the year used as the denominator in calculating diluted and basic earnings per share	**177,994,656**	161,667,928

38. Share-based payments

(a) Employee Option Plan

The establishment of the Starpharma Holdings Limited Employee Share Option Plan was approved by shareholders at the Annual General Meeting held on 17 November 2004 and re-approved on 14 November 2007.
All full-time or part-time employees and directors of the company or associated companies are eligible to participate in the Plan.

The objective of the Plan is to assist in the recruitment, reward, retention and motivation of employees of the company.
Options are granted under the plan for no consideration.
Options are normally granted for a three or five year period and become exercisable on the second anniversary of the date of grant.
Options granted under the plan carry no dividend or voting rights.
Each option is personal to the participant and is not transferable, transmissible, assignable or chargeable, except with the written consent of the remuneration and nomination committee.

(b) Individual Option Deeds

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

(c) Options Attached to a Share Placement

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

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

2008 Grant Date	Expiry Date	Exercise Price $	Balance at start of the year Number	Granted during the year Number	Forfeited during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
Consolidated and parent entity								
6 Feb 2004[a]	31 Dec 2008	$0.73	200,000	–	–	–	**200,000**	200,000
8 Feb 2004[a]	8 Feb 2009	$0.94	410,000	–	42,000	–	**368,000**	368,000
31 Dec 2004[a]	31 Dec 2009	$0.94	147,000	–	46,000	–	**101,000**	101,000
4 Jul 2005[a]	4 Jul 2010	$0.94	300,000	–	–	–	**300,000**	–
18 Jul 2005[a]	18 Jul 2010	$0.94	100,000	–	–	–	**100,000**	100,000
6 Oct 2006[a]	6 Oct 2010	$0.50	1,194,000	–	106,000	–	**1,088,000**	–
17 Nov 2006[a]	30 Jun 2009	$0.45	500,000	–	–	–	**500,000**	500,000
2 Jan 2007[b]	2 Jan 2009	$0.52	65,000	–	–	–	**65,000**	45,000
4 Apr 2007[a]	4 Apr 2011	$0.50	590,000	–	–	–	**590,000**	–
21 Aug 2007[c]	22 Aug 2012	$0.43	–	7,567,119	–	–	**7,567,119**	7,567,119
12 Oct 007[b]	31 May 2009	$0.43	–	10,000	–	–	**10,000**	10,000
12 Oct 007[b]	30 Jun 2009	$0.43	–	10,000	–	–	**10,000**	10,000
12 Oct 007[b]	31 Jul 2009	$0.43	–	10,000	–	–	**10,000**	10,000
12 Oct 007[b]	31 Aug 2009	$0.43	–	10,000	–	–	**10,000**	10,000
31 Oct 2007[a]	7 Aug 2011	$0.50	–	690,000	–	–	**690,000**	–
14 Nov 2007[a]	4 Apr 2011	$0.50	–	150,000	–	–	**150,000**	–
14 Nov 2007[a]	8 Aug 2011	$0.50	–	200,000	–	–	**200,000**	–
Total			3,506,000	8,647,119	194,000	–	**11,959,119**	8,921,119
Weighted average exercise price			$0.92	$0.44	$0.70	$ –	**$0.49**	$0.49

38. Share-based payments

2007

Grant Date	Expiry Date	Exercise Price $	Balance at start of the year Number	Granted during the year Number	Forfeited during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
Consolidated and parent entity								
12 Apr 2002[a]	11 Apr 2007	$0.94	220,000	–	200,000	20,000	**–**	–
21 Jun 2002[a]	30 Jun 2007	$0.94	200,000	–	–	200,000	**–**	–
6 Feb 2004[a]	31 Dec 2008	$0.73	200,000	–	–	–	**200,000**	200,000
8 Feb 2004[a]	8 Feb 2009	$0.94	720,000	–	310,000	–	**410,000**	410,000
31 Dec 2004[a]	31 Dec 2009	$0.94	167,000	–	20,000	–	**147,000**	147,000
12 May 2005[a]	12 May 2010	$0.94	100,000	–	100,000	–	**–**	–
4 Jul 2005[a]	4 Jul 2010	$0.94	300,000	–	–	–	**300,000**	–
18 Jul 2005[a]	18 Jul 2010	$0.94	100,000	–	–	–	**100,000**	–
6 Oct 2006[a]	6 Oct 2010	$0.50	–	1,324,000	130,000	–	**1,194,000**	–
17 Nov 2006[a]	30 Jun 2009	$0.45	–	500,000	–	–	**500,000**	–
2 Jan 2007[b]	2 Jan 2009	$0.52	–	65,000	–	–	**65,000**	45,000
4 Apr 2007[a]	4 Apr 2011	$0.50	–	590,000	–	–	**590,000**	–
Total			2,007,000	2,479,000	760,000	220,000	**3,506,000**	802,000
Weighted average exercise price			$0.92	$0.49	$0.86	$0.94	**$0.63**	$0.86

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

No options were exercised during the current or prior year.

The weighted average remaining contractual life of share options outstanding at the end of the period was 3.39 years (2007: 2.78 years).

Fair value of options granted

The weighted average assessed fair value at grant date of options granted during the year ended 30 June 2008 was $0.14 per option (2007: $0.21). The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option.
The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.
Options are granted for no consideration, and have varying exercise and expiry dates.

Options granted during the year ended 30 June 2008 were:

Option grant date	21 Aug 2007	12 Oct 2007	12 Oct 2007	12 Oct 2007	12 Oct 2007
Number of options	7,567,119	10,000	10,000	10,000	10,000
Exercise price	$0.43	$0.43	$0.43	$0.43	$0.43
Expiry date	21 Aug 2012	31 May 2009	30 Jun 2009	31 Jul 2009	31 Aug 2009
Expected price volatility of the company's shares	46.9%	54.6%	54.6%	54.6%	54.6%
Risk-free interest rate	5.9%	6.3%	6.3%	6.3%	6.3%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Share price at grant date	$0.34	$0.36	$0.36	$0.36	$0.36
Assessed fair value	$0.14	$0.09	$0.09	$0.09	$0.10

Option grant date	31 Oct 2007	14 Nov 2007	14 Nov 2007
Number of options	690,000	150,000	200,000
Exercise price	$0.50	$0.50	$0.50
Expiry date	7 Aug 2011	4 Apr 2011	8 Aug 2011
Expected price volatility of the company's shares	59.2%	59.8%	59.8%
Risk-free interest rate	6.3%	6.3%	6.3%
Expected dividend yield	0.0%	0.0%	0.0%
Share price at grant date	$0.41	$0.39	$0.39
Assessed fair value	$0.18	$0.16	$0.17

Options granted during the year ended 30 June 2007 were:

Option grant date	6 Oct 2006	17 Nov 2006	2 Jan 2007	2 Jan 2007	4 Apr 2007
Number of options	1,324,000	500,000	45,000	20,000	590,000
Exercise price	$0.50	$0.45	$0.52	$0.52	$0.50
Expiry date	6 Oct 2010	30 Jun 2009	2 Jan 2009	2 Jan 2011	4 Apr 2011
Expected price volatility of the company's shares	42.5%	44.0%	44.1%	44.1%	38.8%
Risk-free interest rate	5.5%	5.5%	6.2%	6.2%	6.2%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Share price at grant date	$0.55	$0.45	$0.47	$0.47	$0.43
Assessed fair value	$0.24	$0.20	$0.12	$0.18	$0.14

b) Expenses arising from share-based payment transactions

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

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Options issued under employee option plan	**203**	269	**99**	–
Options issued under deed	**6**	6	**9**	–
	209	275	**108**	–

39. 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 32.

(b) Key management personnel
Disclosures relating to key management personnel are set out in note 28.

(c) Transactions with related parties
The following transactions occurred with related parties:

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Other Transactions				
Funds advanced to subsidiary	–	–	**4,897**	5,597
Funds advanced from subsidiary	–	–	–	–
Share-based payments	–	–	**101**	275
Management services from subsidiary	–	–	**(654)**	(553)
Management services to subsidiaries	–	–	**78**	63
Interest changed on loan to subsidiary	–	–	**190**	48
Impairment of loans to related entities	–	–	**(3,758)**	(4,443)

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

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

	Consolidated		Parent Entity	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Receivables				
Interest on loan to subsidiary	–	–	**238**	48
Loan to subsidiary	–	–	**2,393**	1,254
Management services to subsidiaries	–	–	**75**	60
Payables				
Management services from subsidiary	–	–	**719**	539

Outstanding balances are payable in cash.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 34 to 74 are in accordance with the *Corporations Act 2001,* including:

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

  (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the financial year ended on that date; and

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

(c) the remuneration disclosures set out on pages 17 to 25 of the directors' report comply with *Accounting Standards AASB 124 Related Party Disclosures* and the *Corporations Regulations 2001.*

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

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

Peter T Bartels, *AO*
Director

Melbourne, 29th September 2008

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77
Telephone 61 3 8603 1000
Facsimile 61 3 8603 1999
Website:www.pwc.com/au

INDEPENDENT AUDITORS 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 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

PRICEWATERHOUSECOOPERS

INDEPENDENT AUDITORS REPORT
to the members of Starpharma Holdings Limited (continued)

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

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

Independence

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

Auditor's opinion

In our opinion:

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

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in sections A to E of the directors' report for the year ended 30 June 2008. 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 2008, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Nadia Carlin

Nadia Carlin
Partner

Melbourne
29 September 2008

Shareholder information

The shareholder information set out below was applicable as at 12 September 2008

Supplementary information as required by ASX listing requirements.

A. Distribution of equity shareholders

Analysis of numbers of equity security holders by size of holding as at 12 September 2008

	Class of equity security Ordinary shares	
	Shares	Options
1–1,000	148	–
1,001–5,000	714	-
5,001–10,000	425	1
10,001–100,000	796	32
100,000 and over	164	12
	2,247	45

There were 239 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

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

		Ordinary shares	
	Name	**Number held**	**Percentage of issued shares**
1.	ANZ Nominees Limited <Cash Income A/C>	23,362,758	13.00
2.	The Dow Chemical Company	14,406,827	8.02
3.	National Nominees Ltd	13,976,512	7.78
4.	HSBC Custody Nominees (Australia) Limited-GSI ECSA	9,149,957	5.09
5.	Peter Malcolm Colman	5,522,286	3.07
6.	Irrewarra Investments Pty Ltd <ST A/C>	5,500,000	3.06
7.	Commonwealth Scientific and Industrial Research Organisation	4,514,698	2.51
8.	JPS Distribution Pty Ltd <Raff S/F A/C>	3,567,831	1.99
9.	Kenneth Nominees Pty Ltd <Rayse Super Fund A/C>	3,220,000	1.79
10.	Gilridge Pty Ltd	3,035,054	1.69
11.	Applecross Secretarial Services Pty Ltd <Gorr Pension Plan A/C>	3,004,000	1.67
12.	Biotech Capital Ltd	3,000,000	1.67
13.	J P Morgan Nominees Australia Limited	2,621,575	1.46
14.	Strategic Industry Research Foundation Limited	2,597,302	1.45
15.	Citicorp Nominees Pty Limited	2,305,403	1.28
16.	Merrill Lynch (Australia) Nominees Pty Ltd	1,776,386	0.99
17.	Citicorp Nominees Limited <Cwlth Bank Off Super A/C>	1,738,409	0.97
18.	T & N Argyrides Investments P/L	1,630,000	0.91
19.	Mr Peter Murray Jackson	1,300,000	0.72
20.	JPS Distribution Pty Ltd	1,233,142	0.69
		107,462,140	59.81

Unquoted equity securities	Number on issue	Number of holders
Options issued under the Starpharma Holdings Limited Employee Share Option Plan (ASX code SPLAM)	4,072,000	38
Options issued under individual option deeds	7,672,119	7
Total	11,744,119	45

C. Substantial holders

The following information is extracted from the Company's register of substantial shareholders as at 12 September 2008:

	Number held	Percentage
Ordinary shares		
Acorn Capital Limited	17,151,577	9.54
The Dow Chemical Company Starpharma Holdings Limited has the power to control disposal of 10,805,120 of these shares pursuant to a voluntary escrow deed with The Dow Chemical Company. (refer also Item E below)	14,406,827	8.02
Platinum-Montaur Life Sciences LLC	9,046,365	5.03

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.

E. Securities subject to voluntary escrow

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

Number of shares	Number of holders	Release date
3,601,707	1	18 October 2008
7,203,413	1	18 October 2009

Intellectual Property Report

Starpharma's Patent Porfolio

Starpharma patent portfolio consists of around 39 active patent families with over 100 granted patents and 109 patent applications pending. Five new provisional patent applications were filed during the year in areas such as platform technology, therapeutics, drug delivery, dyes and water remediation.

Key patents within the Starpharma portfolio comprise:

Title	Priority Date & International Publication Number	Patents Granted	Applications Pending
VivaGel® Patent Portfolio			
Antiviral Dendrimers	15 June 1994 WO95/34595	Australia, Austria, Brazil, Canada, China, Europe, Hong Kong, Mexico, New Zealand, Singapore, South Korea, USA	Japan
Antimicrobial & Antiparasitic Agents	17 September 1998 WO00/15240	Australia, New Zealand, Singapore, USA	Brazil, Canada, China, Europe, Japan, Mexico, South Korea, USA
Agents for the Prevention & Treatment of Sexually Transmitted Diseases-I	30 March 2001 WO02/079299	Australia, China, New Zealand, Singapore	Brazil, Canada, Europe, Hong Kong, Japan, Mexico, South Korea, USA
Delivery System	18 October 2005 WO07/045009		Argentina, Australia, Canada, China, Europe, India, Japan, Malaysia, Mexico, New Zealand, South Korea, Taiwan, USA
Composition	22 March 2006 WO07/082331		Australia, Canada, China, Europe, India, Japan, USA
Platform Patent Portfolio			
Macromolecules Compounds having Controlled Stoichiometry	25 October 2005 WO07/048190		Australia, Canada, Europe, USA
Modified Macromolecule	10 August 2006 WO07/082331		Australia, Canada, China, India, Japan, Europe, USA
Dendritic Polymers with Enhanced Amplification and Interior Functionality (Priostar)	20 April 2005 WO06/065266	Korea, Singapore	Argentina, Brazil, Canada, China, Europe, Hong Kong, Israel, India, Japan, Mexico, New Zealand, Taiwan, USA
Dendritic Polymers with Enhanced Amplification and Interior Functionality (PEHAMS 2)	21 December 2005 WO06/115547	Australia	Argentina, Brazil, Canada, China, Europe, Hong Kong, India, Israel, Japan, Korea, Mexico, New Zealand, Singapore, Taiwan, USA
Process for Preparing Alkyne Intermediates for Dendritic Polymers	21 June 2006 (not yet published)		International (PCT)
Imaging Project Patent Portfolio			
Imaging Macromolecule	11 August 2006 WO08/017122		International (PCT)
siRNA Project Patent Portfolio			
Delivery of Biologically Active Materials Using Core-Shell Tecto(Dendritic Polymers)	3 March 2006 WO08/054466		International (PCT)
Drug Delivery Project Patent Portfolio			
Modified Macromolecule 2	11 August 2006 WO2008017125		International (PCT)
Formulations Containing Hybrid Dendrimers	21 June 2006 WO07/149500		International (PCT)

Corporate directory

Company Name

Starpharma Holdings Limited ABN 20 078 532 180

Directors

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

Company Secretary

B P Rogers

Registered office

Baker Building
75 Commercial Road, Melbourne, Victoria 3004 Australia

Share Register

Computershare Investor Services
452 Johnston Street, Abbotsford VIC 3067
1300 850 505 (within Australia)
+613 6415 4000 (outside Australia)

Auditor

PricewaterhouseCoopers
Freshwater Place
Southbank VIC 3006 Australia

Solicitors

Blake Dawson
Level 39, 101 Collins Street,
Melbourne VIC 3000 Australia

Deacons
RACV Tower, 485 Bourke Street
Melbourne VIC 3000 Australia

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

Bankers

Commonwealth Bank of Australia
National Australia Bank
Wachovia Bank, USA

Stock exchange listing

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

ASX Code: SPL

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

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

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

Website address

www.starpharma.com

starpharma

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

Telephone +61 3 8532 2700
Facsimile +61 3 9510 5955
www.starpharma.com

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