



STARPHARMA

ANNUAL REPORT

2010

- **Starpharma and Lilly sign new drug delivery collaboration**
Starpharma's dendrimer drug delivery technology will be applied to enhance compounds in Lilly's human pharmaceutical portfolio
- **VivaGel® coated condom – good progress towards market**
Starpharma's partner, SSL International has also strengthened its global market position for Durex®
- **VivaGel® retains activity following human administration**
Antiviral activity retained for HIV and herpes following vaginal administration in 24 hour study
- **VivaGel® BV Phase II trial commences following FDA clearance**
Clinical study to investigate treatment of bacterial vaginosis (BV), the most common vaginal infection globally
- **Successful VivaGel® study in sexually active women**
VivaGel® study shows safety and tolerability comparable with a matched placebo in sexually active women
- **A\$15.6 million capital raising completed**
Cash position strengthened through institutional placement: A\$22.8 million
- **Agrochemical collaboration signed**
Agreement with multi-billion dollar US-based agrochemical company using Priostar® dendrimers to enhance existing products
- **Key patents granted & extended**
VivaGel® US patent extended to 2024; first grant of condom coating patent
- **Funding awarded for Monash University collaboration**
\$420,000 Australian Research Council funding awarded for drug delivery collaboration

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

Starpharma Holdings Limited

ABN 20 078 532 180

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

The Company has a valuable platform technology based on dendrimers, which are man-made, highly defined nano-sized compounds. The unique properties of this technology are widely applicable both as enhancements to existing products and as entirely new products.

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

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Chairman's Report

Dear Shareholders,

On behalf of the Board and management of Starpharma I am pleased to present the 2009/10 annual report for your review.

Over the last 12 months Starpharma has continued the commercial momentum of the 2008/09 financial year with a number of significant developments achieved. The Company has retained its strong financial position following a successful capital raising in the financial year; the VivaGel[®] product portfolio produced significant positive clinical trial results and for the first time we saw the addition of VivaGel[®] for bacterial vaginosis to its development pipeline. Moreover, the Company has remained focused on pursuing its partnership strategy for the commercialisation of its dendrimer technology platform, securing a number of agreements with leading international organisations.

The development and commercialisation of the Company's lead product VivaGel[®] is progressing well with recent clinical trial data adding to an already strong body of evidence about the product. Adding the treatment of bacterial vaginosis – the most common vaginal infection worldwide, to the development pipeline of VivaGel[®] represents an exciting new commercial opportunity.

While advancing the development program of VivaGel[®] remains a focal point for Starpharma, the Company has also made great gains in pursuing the broad application of its novel dendrimer technology to a range of uses both in life sciences and beyond.

To this end, Starpharma has successfully advanced its partnering program throughout the year – securing partnerships with a diverse range of world leading organisations including a prominent billion dollar US based agrochemical company and Lilly in the area of human pharmaceuticals. These are in addition to a number of existing partnerships with companies including SSL International (SSL) for the development of the coated condom, Lilly's animal

health division Elanco and Stiefel Laboratories (a GSK company) to name a few.

The VivaGel[®]-coated condom remains an important component of SSL's innovation portfolio and our collaboration with SSL continues to make good progress. We were pleased to see recent analyst commentary on SSL which described the VivaGel[®] condom as a potential blockbuster product.

The demand for Starpharma's drug delivery technology has gained significant commercial relevance in the market over the last twelve months, and will remain an area of focus over the coming year as the Company looks to develop partnerships with organisations at the fore of their industry, and with the potential to significantly assist in accelerating the development of products that will generate revenues from product licensing and ultimately deliver increased shareholder value.

Starpharma has ended the 2009/10 financial year with a strong balance sheet. The capital raising of A\$15.6m strengthened the cash reserves of the Company and will be used primarily to fund the clinical trial program of VivaGel[®] as a treatment of bacterial vaginosis and in the development of the broader product pipeline, as well as to advance the commercial relationships and partnerships.

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



Peter T Bartels, AO
Chairman

CEO's Report

Over the last 12 months Starpharma has remained focused on maintaining and building the momentum of the previous year; advancing the development of our lead products VivaGel[®] and the VivaGel[®]-coated condom, progressing the application of Starpharma's dendrimer technology platform to drug delivery,

agriculture and a range of other uses through an active and strong partnering program. This strategy has continued to produce significant results for Starpharma throughout the period and I am delighted to report to our shareholders on the Company's progress in the 2009/10 financial year.

The VivaGel[®] product range

Potential of VivaGel[®]-coated condom market grows steadily: Starpharma continues to work closely with its partner for the VivaGel[®]-coated condom, SSL International (SSL), to complete development and product launch.

SSL has strengthened its market position and global sales in the last year. SSL now holds approximately 40-42% of the global branded condom market following completion of acquisitions in Russia and Ukraine, and reported an increase in total sales across its entire product portfolio (at the close of their financial year) of more than 24.9% from the same period the year before.

Additionally, Starpharma is looking to build this opportunity further through active discussions with various parties regarding commercial rights to the VivaGel[®]-coated condom for markets outside of SSL's territory.

Successful VivaGel[®] clinical trials: The successful completion of a clinical trial of VivaGel[®] in sexually active women produced promising results in March 2010, adding to the existing body of positive evidence regarding the safety and tolerability of VivaGel[®] and its active ingredient, SPL7013.

In the study, VivaGel[®] was shown to be comparable in terms of safety and tolerability to its matched placebo gel without the SPL7013 active ingredient. In addition, both gels were compared with an alternative experimental placebo based on hydroxyethyl cellulose. All three gels were found to be comparable in terms of percentage of women who had one or more abnormal genital finding observed during pelvic exams. There was no statistically significant difference in the proportion of women with other local signs or symptoms related to administration of gels.

These results are significant and will support the ongoing development of VivaGel[®] as both a stand-alone gel targeting genital herpes, HIV and bacterial vaginosis; and as a condom coating.

Further analysis of the study data has also demonstrated that the active ingredient of VivaGel[®], SPL7013, was not absorbed into the blood following vaginal administration, confirming previous clinical and non-clinical study results that indicate the drug remains at the intended site of action.

Bacterial vaginosis – a new application of VivaGel[®]: Starpharma announced in November 2009 that it will pursue clinical trials of VivaGel[®] as a treatment of bacterial vaginosis (BV) - the most common vaginal infection worldwide. The use of VivaGel[®] for this application, rather than as a preventative only, is an important broadening of the gel's utility, and will complement the development program of VivaGel[®] for the prevention of sexually transmitted infections. This new application represents a considerable market opportunity for Starpharma with the global market for topical BV treatments alone, estimated at approximately US\$300-\$350 million.

More than 21 million women in the US are infected with BV, with an infection rate of 51% reported in certain demographics. While there are antibiotic treatments for BV currently on the market, there are significant disadvantages associated with many of these including: low cure rates and a high rate of recurrence; adverse effects of treatment occurring such as gastrointestinal side effects and adverse reactions with alcohol; and incompatibility with condoms.

Preliminary data from other clinical studies has suggested that use of VivaGel[®] tended to restore the normal balance of bacteria in women who had asymptomatic BV at the time of enrolment in the trial.

In July 2010 Starpharma announced it had received clearance from the US Food and Drug Administration (FDA) to commence the Phase 2 BV trial for VivaGel[®]. The study will be conducted under an investigational new drug application (IND) at a number of sites in US and will enrol approximately 132 women.

Partnerships in drug delivery and agrochemicals

Throughout the year Starpharma has demonstrated the diversity of its dendrimer technology pipeline through its broad application in the development of drugs, and to a range of other applications.

Improving human pharmaceuticals: In February 2010, Starpharma announced that its dendrimer drug delivery technology will be applied to enhance compounds in Lilly's human pharmaceutical portfolio.

Under the terms of the agreement Lilly will fund a collaborative research and development program with the aim of creating improved drugs incorporating Starpharma's proprietary delivery technology, to be commercialised by Lilly.

This agreement is separate and additional to the contract signed in May 2009 in which it was agreed that Starpharma and Lilly's animal health division, Elanco, would work together to develop new animal health products with enhanced properties.

Starpharma has a growing list of pharmaceutical companies that are actively exploring the use of the Company's proprietary drug delivery technology to enhance and improve their pharmaceutical products.

Agrochemicals – a new application of Starpharma's dendrimers: In November 2009, Starpharma announced the signing of a research and collaboration agreement with a prominent multi-billion dollar US based agricultural chemicals company. The terms of the agreement prevent Starpharma from disclosing the name of the company.

The collaboration will see Starpharma's Priostar[®] dendrimer technology used to enhance the performance of existing pesticides. The Priostar[®] technology is used to extend the persistence of an active molecule, potentially reducing the amount of active that is required for a given effect.

The global market for pesticides is valued at US\$35.8 billion, representing a significant commercial opportunity for Starpharma's proprietary technology in a completely new market. This agreement is restricted to specific classes of pesticides allowing Starpharma to explore other opportunities for the commercialisation of its dendrimer technology in other parts of the agricultural chemicals sector.

Dendrimer technology advancing *in vitro* diagnostics:

Starpharma is already receiving royalties for the use of its dendrimer technology to enhance the performance of *in vitro* diagnostics (IVD) through a licence agreement with Siemens Healthcare.

Studies have shown that dendrimer technology significantly improves the performance of IVD tests; reducing the number of incorrect diagnoses by correctly orienting key detection molecules in the test kit.

IVD development offers a significant business opportunity for Starpharma, with the industry valued at US\$17.6B in the US alone, and a regulatory path allowing for more rapid new product development and time-to-market.

Starpharma is in the process of developing its IVD business further, focusing on generating commercial deals for this application of its dendrimer technology.

Drug delivery collaboration with Monash University receives ARC funding:

Starpharma's Melbourne-based chemistry team has been working with a team of researchers from the Monash Institute of Pharmaceutical Science (MIPS) to advance certain aspects of Starpharma's proprietary dendrimers in drug delivery.

The collaboration was awarded an Australian Research Council funding grant of A\$420,000 in June 2010 for the purpose of advancing a new drug delivery method that has the potential for application for particular types of cancer, HIV and lymphatic conditions world-wide.

In its latest research, the team's work suggests that the careful design of the size and surface characteristics of certain dendrimers provides an opportunity to boost delivery to the lymphatic system.

The ability to target therapeutics in this manner offers the potential to maximise drug concentration at sites of action while minimising concentrations elsewhere, potentially reducing side effects and toxicity and resulting in improved patient outcomes.

This discovery is an important finding in the field of drug delivery and demonstrates a novel feature of Starpharma's dendrimers. Accordingly, Starpharma continues to explore new applications of its dendrimer technology via commercial relationships, partnering with leading companies with the aim of combining a partner's pharmaceuticals with Starpharma's dendrimers to yield enhanced products.

OVERVIEW OF FINANCIAL RESULTS

For the period ended 30 June 2010, the key metric of cash burn for the year, adjusting for foreign exchange movements, was \$3.8 million, down from the prior year figure of \$4.2 million.

Starpharma reported a net loss after tax of \$6.4 million (2009: \$4.1 million) and experienced net cash outflows of \$3.6 million from operations (2009: \$4.0 million). This was consistent with the company's strategic plans and budget estimates. Cash reserves of \$22.8 million at 30 June 2010 (2009: \$11.6 million) are a result of prudent management of cash, a successful capital raising and continuing partnering revenues and interest received throughout the year.

The increase in the reported net loss after tax for the period is largely due to the expensing of share-based payments in the current year and foreign exchange gains booked in the prior year.

Starpharma successfully raised \$15.6 million through the completion of an institutional share placement in November 2009. The placement was led by Orbis, an existing Starpharma shareholder, and Acorn Capital, the company's largest shareholder also participated along with several other existing and new institutional investors. These funds will be primarily used to fund the clinical trial program developing VivaGel[®] for bacterial

vaginosis, support the broader product pipeline, and assist in advancing further partnering opportunities.

The reduction in grant income for the year reflects a lower R&D spend under the National Institutes of Health grants. Interest revenue increased \$600,000 for the period on the increased cash reserves and higher interest rates for deposits.

Revenue from partners continues to be an important component in developing and commercialising our pipeline while minimising cash flows. This revenue in the prior year was higher due to the receipt of a signing milestone for the VivaGel[®]-coated condom partnership.

In the last 12 months Starpharma has cemented the commercial relevance of its dendrimer technology platform by securing a number of research and commercial partnerships with leading organisations in a range of industries. Partnering not only provides Starpharma with means to gain financial strength through its impact on cash flow, but offers access to products and external expertise to capture new markets quickly and effectively. Starpharma's partnership model with organisations that produce world-leading research and products continues to prove valuable in accelerating the development of its products and in building additional value from its dendrimer platform.

Cash at 30 June 2010

\$22.8M

Cash Burn for 2010

\$3.9M

3 Year Financial Summary

Year Ended 30 June

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

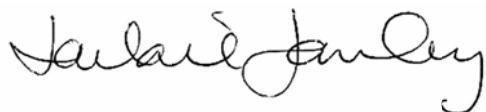
OUTLOOK

The success Starpharma has enjoyed in the last 12 months, and the continued growth and development we foresee in our future is thanks in no small part to our team here. Their skill and dedication is driving the company to be a leader in its field.

Over the coming year we will remain focused on working with SSL to progress the VivaGel[®] condom coating to market, advancing the development of our lead product VivaGel[®] and expanding our dendrimer-based commercial relationships and programs.

The commencement of the Phase-2 bacterial vaginosis clinical program is an exciting extension to the development of VivaGel[®] and with significant commercial potential.

Continuing the momentum of the last year, we are also focused on advancing our existing partnerships in pharmaceuticals, diagnostics and agrochemicals and are seeking to establish new commercial partnerships in the medical and industrial sectors.



Jackie Fairley
CEO

Corporate and Social Responsibility

Starpharma is a world leader in the development of dendrimer products for pharmaceutical, life science and other applications, and aims to create value through the commercialisation of its proprietary products. In striving for this objective, Starpharma acknowledges its role within society and believes its success will

deliver long term positive benefits to all stakeholders. Starpharma's corporate governance principles and code of conduct set the framework for how the company, management and employees are expected to conduct themselves: always ethically and responsibly.

Our People

The employees of Starpharma are critical for achieving business success. To ensure Starpharma remains a safe, healthy, and attractive workplace for our employees, Starpharma has established work place policies and practices. Policies assist to ensure employees have engaging and satisfying roles, receive periodic assessments and feedback on performance, provide ongoing training and career development, and ensure a balanced work and home life.

Employees are rewarded for their performance, dedication, and contribution to the results of Starpharma. Employees are recruited into and retained in positions based on merit. A balance of skills,

expertise and opinion, as well as gender and diversity are viewed as important cultural elements within the collegiate team environment. Employee equity schemes also allow all staff to share in the business success and assists in aligning employees with shareholders.

Occupational health and safety is considered every employee's responsibility, with active committees to eliminate, reduce or mitigate risks associated with Starpharma's activities. Committee members represent all sections of the workplace including management, and employees are encouraged to rotate on and off the committees.

The Community

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

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

Our Partners

Starpharma has established important business and scientific partnerships with leading global companies, international scientific and medical research organisations and key governmental and non-governmental departments and institutions. These

relationships offer critical analysis of research concepts from world experts in their field and provide the pathway for products to enter the market and change daily lives.

The Environment

The broad application of Starpharma's dendrimer research expands into projects that may also assist the environment. Research in the fields of agrochemical and water may improve and reduce the negative impact of current practices on the environment.

All wastes generated from research and operations (albeit relatively minor in volume) are disposed of strictly in accordance with relevant environment regulations.

Choices for Women

VivaGel[®] represents a potential breakthrough in women's health. VivaGel[®] is a microbicide in development to prevent the transmission of STIs including HIV and genital herpes worldwide. VivaGel[®] has application in both the developed and developing countries with the potential to offer a safe, affordable and discreet means for women to protect themselves against important diseases.

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 2010.

Directors

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

P T Bartels (Chairman)
R Robinson

J W Raff (Deputy Chairman)
P J Jenkins

J K Fairley (Chief Executive Officer)
R A Hazleton

Principal Activities

The principal activities of the group consist of development and commercialisation of dendrimer products for pharmaceutical, life-science and other applications. Activities within the group are directed towards the development of precisely defined nano-scale materials, with a particular focus on the development of its topical vaginal microbicide VivaGel[®] for the prevention of genital herpes and HIV, the treatment of bacterial vaginosis, and the application

of dendrimers to drug delivery and other life science applications. More broadly, through partners the group is also exploring dendrimer opportunities in materials science with applications in areas such as coatings, lubricants and water remediation. Products based on the group's dendrimer technology are on the market in the form of diagnostic elements and laboratory reagents.

Business Objective

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

Dividends

No dividends were paid or declared during the period and no dividends are recommended in respect to the financial year ended 30 June 2010. (2009: Nil)

Review of Operations

Achievements and significant events during the 2010 financial year included:

August 2009 VivaGel[®] demonstrates anti-HIV and herpes activity following human administration

Results of a clinical study designed to assess retention of antiviral activity following vaginal administration of VivaGel[®] in women showed that cervicovaginal fluid samples (CVS) obtained immediately after vaginal administration of VivaGel[®] provided effectively complete inhibition of HIV and HSV infection *in vitro*. At 1 and 3 hours following administration of product, the initial high level of inhibition of HIV and HSV was retained in all women tested. Even at 12 and 24 hours following administration, more than 90% of the initial antiviral activity was retained for both HIV and HSV in more than half of the women tested. This was the first clinical study to demonstrate potent antiviral activity of any microbicide beyond one hour after administration of the product in humans. The study in 12 women was designed to determine the timescale over which VivaGel[®] retains activity against HIV and HSV-2 (genital herpes) following vaginal administration. The objective of the trial was to give an indication of how long before sex VivaGel[®] could be applied to prevent infection, as well as providing a potential surrogate for antiviral efficacy ahead of Phase 3 clinical studies.

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

September 2009 US patent grant extends VivaGel[®] coverage to year 2024

A key patent relating to the use of SPL7013 to dendrimers to protect against sexually transmitted infections was approved in the US. The granting of this patent means that any product presentation of SPL7013 (the active ingredient in VivaGel[®]) is now

protected in the US for an additional five years until 2024, with a possible further 12 month extension to 2025.

November 2009 Signs agrochemicals deal

The signing of a research and collaboration agreement between Starpharma's wholly owned US subsidiary, DNT Inc, and a prominent, US-based agricultural chemical company. Under the agreement the parties will use DNT's Priostar[®] dendrimer technology to enhance the performance of existing pesticides. The approach is a natural extension of Starpharma's drug delivery work, in which dendrimers extend the persistence of an active molecule, potentially reducing the amount of active that is required for a given effect.

November 2009 Equity raising of A\$15.6 million by a share placement

\$15.6 million was raised from institutional and sophisticated investors from the placement of 30 million shares at \$0.52 per share. The placement was led by Orbis, an existing Starpharma shareholder, and Acorn Capital, the company's largest shareholder also participated along with several other existing and new institutional investors. The funds raised will primarily be used to finance a clinical trial program to develop VivaGel[®] for the treatment of bacterial vaginosis (BV) and to further strengthen the balance sheet for future development and partnering opportunities.

February 2010 Starpharma and Lilly Sign New Drug Delivery Collaboration for Human Pharmaceuticals

The signing of a new agreement with Eli Lilly and Company (NYSE: LLY) under which Starpharma's dendrimer drug delivery technology will be applied to enhance compounds in Lilly's human pharmaceutical portfolio. Under the terms of the agreement Lilly will fund a collaborative research and development program with the aim of creating improved drugs incorporating Starpharma's proprietary delivery technology, to be commercialised by Lilly.

March 2010 Successful Completion of VivaGel® Study in Sexually Active Women

Release of positive results of a clinical trial showing 3% SPL7013 gel (VivaGel®) was comparable in terms of safety and tolerability with its matched placebo when administered vaginally, twice daily for 14 days in sexually active women. The study enrolled 61 healthy women who vaginally applied VivaGel®, a matched placebo gel without the SPL7013 active ingredient, or an alternative experimental placebo based on hydroxyethyl cellulose (HEC). All three groups were found to be comparable in terms of the percentage of women with one or more abnormal genital findings observed by the investigators during a pelvic examination which were related to the study gels. In addition, there was no statistically significant difference in the proportion of women who had one or more sign and/or symptom of genital irritation

considered to be possibly, probably or definitely related to administration of gels between the VivaGel®, matched placebo gel, and HEC gel treatment groups. The incidence of genital signs and symptoms reported with VivaGel® in this study is in line with that reported in previous safety studies of VivaGel®, and of other topical vaginal products.

June 2010 Starpharma and Monash University collaboration receives ARC funding grant

Starpharma and Monash Institute of Pharmaceutical Sciences (MIPS) were awarded a \$420,000 Australian Research Council (ARC) funding grant for the purpose of advancing a new drug delivery method that may benefit thousands of patients with particular types of cancer, HIV and lymphatic conditions worldwide.

Financial Summary

For the year ended 30 June 2010 the consolidated entity incurred an operating loss after income tax of \$6,378,000 (June 2009: \$4,127,000).

	Year Ended 30 June	
	2010 \$'000	2009 \$'000
Income statement		
Revenue from continuing operations	2,103	2,124
Other income	3,805	7,691
Research and development expenses	(5,723)	(9,988)
Administration expenses	(6,548)	(4,128)
Finance costs	(18)	(28)
Income tax credit	3	202
Loss attributable to members	(6,378)	(4,127)

Income statement

Revenue consisted of royalty, licensing and research income from partners including SSL International, Lilly, Siemens Healthcare, Qiagen, EMD Biosciences and Elanco. Other income consisted of grant income from United States and Australian Government grants, which partly offset research and development expenditure. The majority of US Government grants were from the US National Institutes of Health for VivaGel® development costs. All research and development expenditure, including patenting costs, were fully expensed in the current and prior year. Administration expenditure includes the amortisation of patent intangibles, expensing of share-based payments and gains and losses from foreign exchange movements.

Balance sheet

At 30 June 2010 the group's cash position was \$22,851,000 (2009: \$11,595,000). There was an increase in contributed equity of \$16,126,000 (2009: \$6,973,000) on the completion of a private placement in November 2009.

Statement of cash flows

Net operating cash outflow for the year was \$3,630,000 (2009: \$4,029,000). Unfavourable exchange rate movements resulted in an overall cash burn of \$3,866,000 (2009: \$2,860,000) for the year. Cash flow from financing activities included the proceeds from the issue of shares.

Earnings per share

	2010	2009
Basic loss per share	(\$0.03)	(\$0.02)
Diluted loss per share	(\$0.03)	(\$0.02)

Net tangible assets

	2010	2009
Net tangible asset backing per ordinary share	\$0.09	\$0.05

Significant changes in the state of affairs

There was an increase in contributed equity of \$16,126,000 (2009: \$6,973,000) with the majority due to the completion of a private placement in November 2009. The fully paid ordinary shares were issued at a price of \$0.52 per share.

Matters subsequent to the end of the financial year

On 15 July 2010 Starpharma announced it had received clearance from the US Food and Drug Administration (FDA) to commence a phase 2 study to investigate VivaGel[®] for the treatment of bacterial vaginosis (BV). VivaGel[®] is under investigation for both the short term treatment and longer term suppression of recurrence of BV in women. This initial phase of the clinical program will investigate the treatment of BV with a once daily for seven days treatment of VivaGel[®] and its findings will guide further investigation of suppression of recurrence. The study will be conducted under an

investigational new drug application (IND) at sites in US and will enrol 132 women.

No other matters or circumstances have arisen since 30 June 2010 that have significantly affected, or may significantly affect: (a) the consolidated entity's operations in future financial years, or (b) the results of those operations in future financial years, or (c) the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

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

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

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

Regulatory Environment

There were no significant changes in laws or regulations during the 2010 financial year or since the end of the year affecting the

business activities of the group, and the directors are not aware of any such changes in the near future.

Environmental regulation

The group is subject to environmental regulations and other licences in respect of its facilities in Melbourne (Victoria, Australia) and Mt Pleasant (Michigan, USA). There are adequate systems in

place to ensure compliance with relevant Federal, State and Local environmental regulations and the Directors are not aware of any breach of applicable environmental regulations by the group.

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 25 of this annual financial report.

Information on Directors

Peter T Bartels, AO, FAISM, FRS (age 69)

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

129,804 ordinary shares in Starpharma Holdings Limited

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

Other current directorships of listed entities: None

Former directorships of listed entities in last 3 years: None

John W Raff Dip. Ag Sc, BSc, PhD (age 61)

Non-executive director
Deputy Chairman

7,280,777 ordinary shares in Starpharma Holdings Limited

Former CEO of Starpharma, holding the position for nine years until his retirement on 1 July 2006. Previously General Manager of the Biomolecular Research Institute. Co-founder, director and major shareholder of a technology based agricultural seed company. Chairman of the 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

Jacinth (Jackie) K Fairley BSc, BVSc (Hons), MBA (age 47)

Executive director	1,482,321 ordinary shares in Starpharma Holdings Limited
Chief Executive Officer	750,000 rights over ordinary shares in Starpharma Holdings Limited 350,000 options over ordinary shares in Starpharma Holdings Limited

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

Other current directorships of listed entities: None

Former directorships of listed entities in last 3 years: None

Ross Dobinson B Bus (Acc) (age 58)

Independent Non-executive director	Nil ordinary shares in Starpharma Holdings Limited
Chairman of audit & risk committee	
Chairman of remuneration & nomination committee	

Non-executive director for thirteen 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)
Executive Chairman of Hexima Limited since 21 July 2010

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

Richard A Hazleton BSChE, MSChE, HonDrEngr, HonDrCommSci (age 68)

Independent Non-executive director	142,616 ordinary shares in Starpharma Holdings Limited
Member of remuneration & nomination committee	

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

Other current directorships of listed entities: None

Former directorships of listed entities in last 3 years: None

Peter J Jenkins MB, BS (Melb), FRACP (age 64)

Independent Non-executive director	1,426,000 ordinary shares in Starpharma Holdings Limited
Member of audit & risk committee	

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

Other current directorships of listed entities: Nil

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

Company Secretary

The Company Secretary is Mr Ben Rogers (age 62). He was a member of Starpharma's start-up/IPO management team and has been Company Secretary since February 1998, with responsibilities that included the role of Chief Financial Officer until 31 December 2008. Mr Rogers has extensive experience in finance, corporate governance and HR management with CSIRO research laboratories and Co-operative Research Centres and is an affiliate of Chartered Secretaries Australia.

Meetings of Directors

The number of meetings of the Company's Board of directors and of each committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director were:

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

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

Retirement, election and continuation in office of Directors

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

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

Remuneration Report

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

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

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

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

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

Directors' fees

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. The Chairman's fees are determined independently 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 bonuses, share options or other forms of equity securities. Non-executive directors' fees are reviewed annually by the remuneration and nomination committee. An increase in non-executive directors' fees took effect from 1 January 2010 after a review of comparable data from the biotechnology sector. The fees were last increased in 1 January 2004 and were halved for the six month period from January 2009 to June 2009. Fees and payments are determined within an aggregate non-executive directors' fee pool limit, which is periodically recommended for approval by shareholders. The aggregate amount currently stands at \$450,000 which was approved by shareholders on 15 November 2006. This amount (or some part of it) is to be divided among the non-executive directors as determined by the Board. The aggregate amount paid to non-executive directors for the year ended 30 June 2010 was \$300,000 (2009: \$180,000). Non-executive directors do not receive any performance-related remuneration or retirement allowances. Superannuation contributions required under the Australian superannuation guarantee legislation continue to be made and are deducted from the directors' overall fee entitlements.

Relationship between executive reward and company financial performance

The Company's remuneration policy aligns executive reward with the interests of shareholders. The primary focus is on sustained growth in shareholder value through achievement of R&D and commercial milestones, and therefore the remuneration policy is not necessarily directly linked to financial performance determined by losses or short term share price performance. The Company has incurred losses in this financial year and in the previous 5 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 equity plans, 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 equity allocations, but cash incentives (bonuses) may be awarded, or equity offered at the end of the performance review cycle for specific contributions, or upon achievement of significant Company milestones at the discretion of the Board. Following a performance evaluation, the amount of possible bonus payable to each executive is determined by the remuneration and nomination committee, taking into account factors including the accountabilities of the role and impact on the Company. There are no guaranteed base pay increases in any executives' contracts.

Starpharma CEO Equity Incentive Plan

On 25 March 2010 the CEO Equity Incentive Plan was approved by shareholders for the issue of 1,428,571 fully paid ordinary shares and 750,000 performance rights (being rights to receive fully paid ordinary shares subject to continued employment with the Company and the satisfaction of certain performance hurdles over a specified period). The CEO, Dr Jacinth Fairley was granted the shares and rights on 31 March 2010. The shares and performance rights were issued for no consideration. Dr Fairley was engaged as the Company's Chief Executive Officer in July 2006 and charged with a brief to commercialise Starpharma's technology portfolio, it was agreed as part of her remuneration package Dr Fairley would be rewarded for her performance with an entitlement to equity of between \$1 million and \$2 million within three years provided certain goals were met. These long term and short term goals are typical of a biotechnology company in Starpharma's lifecycle. The Board has the view that the Company has achieved superior performance under the stewardship of Dr Fairley and has achieved a number of significant milestones during this period. Accordingly, the Board is of the view that Dr Fairley's performance has been outstanding during the period. The plan contains two tranches to recognise her achievements and to provide the appropriate incentives for future performance.

Starpharma Employee Performance Rights Plan

In 2010 the Board approved the introduction of the Starpharma Employee Performance Rights Plan. All executives and staff are eligible to participate in the Plan. Except for the performance rights outlined under the CEO Equity Incentive Plan, no allocations have been made in the current year; however an allocation to other employees has been made subsequent to the end of the financial year. The objective of the Plan is to assist in the recruitment, reward, retention and motivation of employees of the company. The Plan allows for the issue of performance rights to fully paid ordinary shares (being rights to receive shares subject to continued employment with the Company and the satisfaction of certain performance hurdles over a specified period). A further holding lock period may also be applied to restrict disposal at the end of the vesting period. Performance rights are granted under the Plan for no consideration.

Starpharma Employee Share Plan (\$1,000 Plan)

All executives and staff, excluding directors, are eligible to participate in the Starpharma Employee Share Plan (\$1,000 Plan). The objective of the \$1,000 Plan is to assist in the reward, retention and motivation of employees of the company. The \$1,000 Plan was established during the current year as a part replacement for the Starpharma Employee Share Option Plan after recent adjustments to relevant employee share scheme legislation. An annual allocation of up to \$1,000 of shares may be granted and

taxed on a concessional basis. Shares are granted under the \$1,000 Plan for no consideration and are escrowed for 3 years while participants are employed by the Company.

Starpharma Employee Share Option Plan

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

the volume-weighted average price (VWAP) of the shares in the 15 days preceding the approval to grant the options. No allocations under the Plan were made in the current year.

Performance review and development

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

B. Details of remuneration

Details of the nature and amount of each element of the remuneration of each director of Starpharma Holdings Limited and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) and the specified executives of Starpharma Holdings Limited and the consolidated entity are set out in the following tables. The key management personnel of Starpharma Holdings Limited include the directors as per pages 9 to 10. The key management personnel of the Starpharma Holdings Limited group include the directors as per pages 9 to 10 above and the

following executive officers, which include the five highest paid executives of the entity:

N J Baade	Chief Financial Officer
C P Barrett	VP, Business Development
J K Fairley	Chief Executive Officer
D J Owen	VP, Research
J R Paull	VP, Development and Regulatory Affairs
B P Rogers	Company Secretary

Directors and Key management personnel of Starpharma Holdings Limited

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

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

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

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

2009 Name	Short-term benefits			Post-employment	Long-term benefits	Share-based payment	Total
	Cash salary & fees \$	Cash bonus [#] \$	Non-monetary benefits \$	Super-annuation \$	Long service leave \$	Options [#] \$	
Non-executive directors							
P T Bartels	–	–	–	60,000	–	–	60,000
J W Raff	–	–	–	30,000	–	–	30,000
R Dobinson	30,000	–	–	–	–	–	30,000
P J Jenkins	–	–	–	30,000	–	–	30,000
R A Hazleton	30,000	–	–	–	–	–	30,000
Executive directors							
J K Fairley	301,777	50,000	3,442	49,998	412	32,212	437,841
Totals	361,777	50,000	3,442	169,998	412	32,212	617,841

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

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

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

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

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

There were no retirement benefits paid in the current year.

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

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

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

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

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

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

C. Service Agreements

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

J K Fairley Chief Executive Officer

- No fixed term of agreement
- Base salary, inclusive of superannuation, per annum as at 30 June 2010 of \$371,315, to be reviewed annually by the remuneration and nomination committee.
- A cash bonus up to \$150,000 per year, commencing on 1 July 2008 allocated proportionately on the achievement of predetermined objectives.
- Fringe benefits consist of on-site car parking.
- Subject to termination at any time by:
 - (i) the Executive giving to the Company twelve months' notice in writing; or
 - (ii) the Company giving to the Executive six months' notice in writing. If the Company gives notice in accordance with this clause, the Executive will be entitled to a termination payment upon the expiration of the notice period, of an amount equal to 6 months' total remuneration.
- The Executive's employment may be terminated by the Company at any time without notice if the Executive:
 - (i) is guilty of serious misconduct;

- (ii) becomes unable to pay the Executive's debts as they become due; or
- (iii) is found guilty by a court of a criminal offence.

B P Rogers Company Secretary

- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 30 June 2010 of \$135,580 part-time, to be reviewed annually by the remuneration and nomination committee.
- Fringe benefits consist of on-site car parking.
- Payment of termination benefit on termination by the employer, other than for serious breach of obligations to the employer, wilful neglect of duty or serious misconduct, equal to thirteen weeks gross remuneration.

J R Paull VP – Development and Regulatory Affairs

- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 30 June 2010 of \$198,050, to be reviewed annually by the remuneration and nomination committee.
- Fringe benefits consist of on-site car parking.
- Subject to termination at any time by:
 - (i) the Executive giving to the Company not less than three months written notice; or
 - (ii) the Company giving to the Executive written notice, or payment in lieu of that notice, which notice period shall be six months.
- The Executive's employment may be terminated by the Company at any time without notice for serious breach of obligations to the employer, wilful neglect of duty, serious misconduct or bankruptcy.

C P Barrett VP – Business Development

- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 30 June 2010 of \$203,528, to be reviewed annually by the remuneration and nomination committee.
- Subject to termination at any time by:
 - (i) the Executive giving to the Company not less than two months written notice; or
 - (ii) the Company giving to the Executive written notice, or payment in lieu of that notice, which notice period shall be four months.
- The Executive's employment may be terminated by the Company at any time without notice for serious breach of obligations to the employer, wilful neglect of duty, serious misconduct or bankruptcy.

N J Baade Chief Financial Officer

- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 30 June 2010 of \$176,018, to be reviewed annually by the remuneration and nomination committee.
- Fringe benefits consist of on-site car parking.
- Subject to termination at any time by:
 - (i) the Executive giving to the Company not less than two months written notice; or
 - (ii) the Company giving to the Executive written notice, or payment in lieu of that notice, which notice period shall be four months.
- The Executive's employment may be terminated by the Company at any time without notice for serious breach of obligations to the employer, wilful neglect of duty, serious misconduct or bankruptcy.

D J Owen VP – Research

- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 30 June 2010 of \$176,400, to be reviewed annually by the remuneration and nomination committee.
- Subject to termination at any time by:
 - (i) the Executive giving to the Company not less than three months written notice; or
 - (ii) the Company giving to the Executive written notice, or payment in lieu of that notice, which notice period shall be three months.
- The Executive's employment may be terminated by the Company at any time without notice for serious breach of obligations to the employer, wilful neglect of duty, serious misconduct or bankruptcy.

D. Share-based compensation**Options**

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

period is 1 to 2 years from the date of grant, and the exercise period is 2 to 3 years from the end of the vesting period.

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

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

Options granted under the Plan carry no dividend or voting rights. The weighted average remaining contractual life of share options outstanding at the end of the year was 1.55 years (2009: 2.45 years).

Fair value of options granted

There were no options granted in the current year. The weighted average assessed fair value at grant date of options granted to key management personnel during the prior year ended 30 June 2009 was \$0.17 per option. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact

of dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option. The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

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

Options granted on:	2009	
	1 January 2009	29 June 2009
Number of options granted	600,000	600,000
Expiry date	28 August 2012	28 June 2014
Exercise price	\$0.29	\$0.37
Expected price volatility of the company's shares	88.2%	92.4%
Risk-free interest rate	5.7%	5.7%
Expected dividend yield	–	–
Share price at grant date	\$0.20	\$0.33
Assessed fair value	\$0.11	\$0.23

Shares issued on the exercise of options

No shares in Starpharma Holdings Limited have been issued to the key management personnel of the group 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 group with greatest authority as part of their remuneration were as follows:

Name	Number of options granted during the year		Number of options vested during the year		Number of options lapsed during the year	
	2010	2009	2010	2009	2010	2009
J K Fairley	–	–	200,000	150,000	–	500,000
B P Rogers	–	200,000	–	200,000	–	220,000
J R Paull	–	275,000	–	200,000	–	80,000
C P Barrett	–	275,000	–	200,000	–	–
N J Baade	–	225,000	–	200,000	–	–
D J Owen	–	225,000	–	200,000	–	–
R I Berry	–	–	–	250,000	–	–

The options were granted under the Starpharma Holdings Limited Employee Share Option Plan on the dates indicated. Details of options granted to the directors and the five most highly remunerated officers of the group can be found in section D of the remuneration report on page 16. 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.

Shares and Performance Rights

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

Name	Number of shares granted during the year		Number of performance rights granted during the year	
	2010	2009	2010	2009
J K Fairley	1,428,571	–	750,000	–
B R Rogers	1,418	–	–	–
J R Paull	1,418	–	–	–
C P Barrett	1,418	–	–	–
N J Baade	1,418	–	–	–
D J Owen	1,418	–	–	–

No performance rights have vested or lapsed; and no shares were issued on the exercise of performance rights in the current or prior year.

CEO Equity Incentive Plan (Performance Rights)

The terms and conditions of the grant of performance rights over unissued ordinary shares of Starpharma Holdings Limited in the current year 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	Vesting Date	Holding Lock Expiry date	Number of Rights	Performance Measure	Value per right at grant date	% vested
31 March 2010	31 December 2010	1 March 2013	262,500	Share Price ≥ \$0.65	\$0.37	Nil
31 March 2010	31 December 2010	1 March 2013	262,500	Share Price ≥ \$1.00	\$0.09	Nil
31 March 2010	31 December 2010	1 March 2013	225,000	Achievement of KPIs	\$0.55	Nil

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

Details of remuneration: cash bonuses, shares, performance rights and options

For each cash bonus and grant of equity included in the tables on pages 13 to 19, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and individual performance objectives and in consideration of the group's performance and ability to pay. 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 2010 the minimum value of the options yet to vest is nil. The maximum value of the options yet to vest has been determined assuming all conditions are met.

Name	Cash bonus		Grant date value of shares granted during 2010 ³	Accounting values being amortised in future years		Remuneration consisting of shares, options & rights ⁵	Grant date value of options & rights granted during 2010 ³	Value of options & rights exercised during 2010 at exercise date
	Paid	Forfeited		Equity grants in 2009 to be expensed in 2011 ⁴	Equity grants in 2010 to be expensed in 2011 ⁴			
	%	%	\$	\$	\$	%	\$	\$
J K Fairley	100% ¹	–	985,714	–	164,904	65%	246,459	–
B P Rogers	– ²	–	1,000	12,752	–	11%	–	–
J R Paull	– ²	–	1,000	16,212	–	11%	–	–
C P Barrett	– ²	–	1,000	16,212	–	10%	–	–
N J Baade	– ²	–	1,000	15,668	–	10%	–	–
D J Owen	– ²	–	1,000	15,668	–	11%	–	–

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

² The bonuses paid are at the absolute discretion of the Board based on an individual's performance within the year. There is no unpaid component of the bonuses awarded.

³ The value at grant date calculated in accordance with AASB 2 *Share-based Payments* of shares and performance rights granted during the year as part of remuneration.

⁴ The maximum value of options and performance rights is determined at grant date and is amortised over the applicable vesting period. The amount which will be included in a given key management personnel's remuneration for a given year is consistent with this amortisation amount. No options or performance rights will vest if the conditions are not satisfied, hence the minimum value yet to vest is nil.

⁵ The percentage of the value of remuneration consisting of equity, based on the market value of shares at grant date, and the fair value of options and performance rights expensed during the current year.

Shares under option

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

Grant date	Expiry date	Issue price of shares	Number under options
6 October 2006	6 October 2010	\$0.50	898,000
2 January 2007	2 January 2011	\$0.52	20,000
4 April 2007	4 April 2011	\$0.50	590,000
21 August 2007	31 August 2012	\$0.43	7,567,119
31 October 2007	07 August 2011	\$0.50	370,000
14 November 2007	4 April 2011	\$0.50	150,000
14 November 2007	8 August 2011	\$0.50	200,000
1 January 2009	28 August 2012	\$0.29	1,378,000
29 June 2009	28 June 2014	\$0.37	1,444,000

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

Shares issued on the exercise of options

The following ordinary shares of Starpharma Holdings Limited were issued during the year ended 30 June 2010 on the exercise of options granted under the Employee Share Option Plan. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares (Option exercise price)	Number of shares issued
6 October 2006	\$0.50	130,000
31 October 2007	\$0.50	40,000

Shares under rights

Unissued ordinary shares of Starpharma Holdings Limited under CEO Equity Incentive Plan and Employee Performance Rights Plan at the date of this report are as follows:

Grant date	Vesting date	Holding Lock date	Issue price of shares	Number under options
31 March 2010	31 December 2010	1 March 2013	\$ -	750,000
August 2010 ¹	31 August 2012	31 August 2013	\$ -	830,800

¹ Employees have been invited to participate in the Employee Performance Rights Plan. The number of rights granted will be dependent on the level of employee acceptances, with the invitations totalling 830,800. The rights are expected to be granted on or around 31 August 2010.

Insurance of officers

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

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

Audit & non audit services

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

not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

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

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

Assurance Services	2010	2009
	\$	\$
Audit or review of financial reports of the entity or any entity in the group under the <i>Corporations Act 2001</i>	124,500	129,000
Other assurance services – Grant reviews & program audits	27,300	22,500
Audits performed by other auditors of controlled entities	–	27,137

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 21.

Rounding of amounts

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

Auditor

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

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



Peter T Bartels, AO
Director
Melbourne, 25 August 2010

PricewaterhouseCoopers
ABN 52 780 433 757

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

Auditor's Independence Declaration

As lead auditor for the audit of Starpharma Holdings Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

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

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



Anton Linschoten
Partner
PricewaterhouseCoopers

Melbourne
25 August 2010

Corporate Governance Statement

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

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

1. The Board of Directors

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

1.1 Board charter

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

1.1.1 Board Composition

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

1.1.2 Functions Reserved for the Board

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

(a) Strategic Issues

- approving the Company’s corporate strategy;
- overseeing and monitoring organisational performance and the achievement of the group’s strategic goals and objectives;
- approving any major transaction not included in the budget or outside the ordinary course of the business;
- determining the structure of the Company and the definition of the business;

(b) Shareholding Items

- issuing shares, options or performance rights;
- granting special rights to shares;
- determining the amount of a dividend;

(c) Financial Items

- approving the Company’s credit policy;
- reviewing and approving the annual budget and financial plans including available resources and major capital expenditure initiatives;
- seeking credit in excess of \$50,000;

- giving any guarantee or letter of credit or any security over the Company’s assets;

(d) Expenditure Items

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

(e) Audit

- approving appointment or removal of external auditors;
- considering any external audit reports;

(f) Board and Senior Management

- establishing corporate governance policies;
- appointment, performance assessment and, if necessary, removal of the CEO
- determining remuneration of the CEO;
- ratifying the appointment and, if necessary, the removal of senior executives;

1.1.3 Other Board Responsibilities

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

1.2 Board members

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

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

1.3 Directors’ independence

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

- not be a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company;
- within the last three years, not have been employed in an executive capacity by the Company, or been a director after ceasing to hold any such employment;
- within the last three years, not have been a principal of a material professional adviser or a material consultant to the Company, or an employee materially associated with the service provided;
- not be a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- must have no material contractual relationship with the Company other than as a director;

- be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

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

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

1.4 Term of office

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

1.5 Chairman and Chief Executive Officer (CEO)

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

2. Corporate reporting

The Company prepares audited financial statements for each year ending 30 June, and reviewed financial statements for each half year period ending 31 December. In accordance with ASX Listing Requirements the annual financial statements are lodged with the ASX by 31 August, and half year statements are lodged with the ASX by 28 February each year. The CEO and the CFO have made the following certifications to the Board for the year ended 30 June 2010:

The Board policy is for these separate roles of Chairman and CEO 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 meetings of the Board and of each Board committee held during the year ended 30 June 2010, and the number of meetings attended by each director is disclosed in the Directors' Report. The commitments of non-executive directors are considered by the remuneration and nomination committee prior to their appointment to the Board and are reviewed each year as part of the annual performance assessment. Prior to appointment or being submitted for re-election each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

1.7 Conflict of interests

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

1.8 Independent professional advice

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

1.9 Performance assessment

The Board undertakes an annual self-assessment of its performance. Each director is asked to consider matters such as composition, structure and role of the Board, and performance of individual directors. The Chairman then meets individually with each director to discuss the assessment.

During the year an assessment of the Board and its committees was conducted in accordance with these procedures.

The CEO's performance is assessed taking into account attainment of predetermined targets or goals based on various financial and other measurable indicators related to the Company. The CEO meets with the remuneration and nomination committee annually to discuss attainment of key performance indicators of both the CEO and the senior management team.

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

3. Board committees

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

3.1 Audit and risk committee

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

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

Details of these directors' qualifications and attendance at committee meetings are set out in the directors' report pages 9 to 11. The audit and risk committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industry in which the group operates. The committee meets at least twice a year, and has direct access to the Company's auditors. The charter of this committee is to:

- review and report to the Board on the annual report, the half-year financial report and all other financial information published by the company or released to the market;
- assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
 - > effectiveness and efficiency of operations,
 - > reliability of financial reporting, and
 - > compliance with applicable laws and regulations.

- oversee the effective operation of the risk management framework by:
 - > ensuring the effective implementation of the risk management policy and program,
 - > defining risk threshold levels for referral to the Board,
 - > ensuring that an effective system of internal compliance and control is in place,
 - > ensuring staff charged with risk management responsibilities have appropriate authority to carry out their functions and have appropriate access to the audit and risk committee, and
 - > ensuring the allocation of sufficient resources for the effective management of risk
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance;
- consider the independence and competence of the external auditor on an ongoing basis;
- review and monitor related party transactions and assess their propriety;
- assist the Board in the development and monitoring of statutory compliance and ethics programs;
- provide assurance to the Board that it is receiving adequate, up to date and reliable information;
- report to the Board on matters relevant to the committee's role and responsibilities.

In fulfilling its responsibilities, the audit and risk committee:

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

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

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

3.2 Remuneration and nomination committee

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

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

Details of these directors' attendance at committee meetings are set out in the directors' report on page 11.

The charter of the remuneration and nomination committee is to:

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

When the need for a new director is identified or an existing director is required to stand for re-election, the committee reviews the range of skills, experience and expertise on the board, identifies its needs and prepares a short-list of candidates with appropriate skills and experience. Where necessary, advice is sought from independent search consultants. Each member of the senior executive team has signed a formal employment contract covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. Each contract refers to a specific formal position description which is reviewed by the committee as necessary in consultation with the CEO and relevant executive. The remuneration and nomination committee's terms of reference include responsibility for reviewing any transaction between the organisation and the directors, or any interests associated with the directors, to ensure the structure and the terms of the transaction are in compliance with the *Corporations Act 2001* and are appropriately disclosed. The Remuneration Report is set out on pages 12 to 19.

5. Risk assessment and management

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

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

6. The environment, occupational health and safety

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

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

7. Code of conduct

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

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

8. Trading in Company securities

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

otherwise transferring to any other person the risk of any fluctuation in the value of:

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

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

9. Continuous disclosure and shareholder communication

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

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

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

Annual Financial Report

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

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

Its registered office and principal place of business is:

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

A description of the nature of the group's operations and its principal activities is included in the CEO's Report on pages 3 to 5 and in the review of operations in the directors' report on pages 7 to 8, which are not part of this financial report.

The financial report was authorised for issue by the directors on 25 August 2010. 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 statement

For the year ended 30 June 2010

	Notes	Consolidated	
		2010 \$'000	2009 \$'000
Revenue from continuing operations	5	2,103	2,124
Other income	5	3,805	7,691
Administration expense		(6,548)	(4,128)
Research and development expense		(5,723)	(9,988)
Finance costs		(18)	(28)
Loss before income tax		(6,381)	(4,329)
Income tax credit	7	3	202
Loss from continuing operations attributable to members of Starpharma Holdings Limited		(6,378)	(4,127)
Loss per share for loss from continuing operations attributable to the ordinary equity holders of the company			
Basic loss per share	24	(\$0.03)	(\$0.02)
Diluted loss per share	24	(\$0.03)	(\$0.02)

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

Statement of comprehensive income

For the year ended 30 June 2010

	Notes	Consolidated	
		2010 \$'000	2009 \$'000
Loss for the year		(6,378)	(4,127)
Other comprehensive income (loss), net of income tax			
Foreign exchange differences on translation of foreign operations	15	(667)	2,061
Other comprehensive income (loss), net of income tax		(667)	2,061
Total comprehensive income (loss) for the year, net of income tax		(7,045)	(2,066)

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

Balance Sheet

As at 30 June 2010

	Notes	Consolidated	
		2010 \$'000	2009 \$'000
Current Assets			
Cash and cash equivalents	8	22,851	11,595
Trade and other receivables	9	1,379	1,581
Total current assets		24,230	13,176
Non-current assets			
Property, plant and equipment	10	219	447
Intangible assets	11	13,118	15,224
Total non-current assets		13,337	15,671
Total assets		37,567	28,847
Current Liabilities			
Trade and other payables	12	1,581	1,764
Borrowings	13	160	133
Provisions (employee entitlements)		295	316
Deferred income		629	930
Total current liabilities		2,665	3,143
Non-current liabilities			
Borrowings	13	-	160
Provisions (employee entitlements)		58	20
Deferred income		-	25
Total non-current liabilities		58	205
Total liabilities		2,723	3,348
Net assets		34,844	25,499
Equity			
Contributed equity	14	101,766	85,640
Reserves	15	2,876	3,279
Accumulated losses	16	(69,798)	(63,420)
Total equity		34,844	25,499

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

Statement of changes in equity

Consolidated

For the year ended 30 June 2010

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

For the year ended 30 June 2009

				2009			
				Contributed capital	Reserves	Accumulated losses	Total equity
				\$'000	\$'000	\$'000	\$'000
Notes							
Balance at 1 July 2008				78,667	1,009	(59,293)	20,383
Loss for the year				-	-	(4,127)	(4,127)
Other comprehensive income							
Foreign exchange differences on translation of foreign operations				15	-	2,061	-
Total comprehensive income (loss) for the year				-	2,061	(4,127)	(2,066)
Transactions with owners, recorded directly in equity							
Contributions of equity, net of transaction costs				14	6,973	-	-
Employee share options plan				15	-	209	-
Total transactions with owners				6,973	209	-	7,182
Balance at 30 June 2009				85,640	3,279	(63,419)	25,499

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

Statement of cash flows

For the year ended 30 June 2010

	Notes	Consolidated	
		2010	2009
		\$'000	\$'000
Cash flow from operating activities			
Receipts from trade and other debtors		1,524	1,745
Grant income (inclusive of GST)		3,719	7,074
Payments to suppliers and employees (inclusive of GST)		(9,268)	(12,898)
Interest received		418	78
Interest paid		(18)	(28)
Income tax paid		(5)	-
Net cash outflows from operating activities	23	(3,630)	(4,029)
Cash flow from investing activities			
Receipts from disposals of property, plant and equipment		23	2
Payments for property, plant and equipment		(27)	(49)
Net cash outflows from investing activities		(4)	(47)
Cash flow from financing activities			
Proceeds from issue of shares		15,685	7,151
Share issue transaction costs		(563)	(178)
Lease repayments		(157)	(162)
Net cash inflows from financing activities		14,965	6,811
Net increase (decrease) in cash and cash equivalents held		11,331	2,735
Cash and cash equivalents at the beginning of the year		11,595	7,482
Effects of exchange rate changes on cash and cash equivalents		(75)	1,378
Cash and cash equivalents at the end of the year		22,851	11,595

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

Notes to the financial statements

30 June 2010

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1. Summary of significant accounting policies

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

(a) Basis of preparation

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

Compliance with IFRS

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

Historical cost convention

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

Critical accounting estimates

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

For the year ended 30 June 2010, the consolidated entity has incurred losses of \$6,378,000 (2009: \$4,127,000) and experienced net cash outflows of \$3,630,000 from operations (2009: \$4,029,000), as disclosed in the balance sheet and statement of cash flows, respectively. This is consistent with the consolidated entity's strategic plans and budget estimates, and the directors are satisfied regarding the availability of working capital for the period up to at least August 2011. 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.

Financial statement presentation

The group has applied the revised AASB101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Starpharma Holdings Limited ("company" or "parent entity") as at 30 June 2010 and the results of all subsidiaries for the year then ended. Starpharma Holdings Limited and its subsidiaries together are referred to in this financial report as the group or the consolidated entity.

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

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

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

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

(c) Segment reporting

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

The group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB114 *Segment Reporting*. The new standard requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments have previously been reported under geographic segments based on the location of the operations, which is consistent with the internal reporting provided to the chief operating decision maker.

There have been no changes in the operating segments identified by the group as a result of the adoption of AASB 8 *Operating Segments*, so there is no impact on the number of segments reported or the basis of organisation of segments for the current or prior year.

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

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

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 profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(g) Income Tax

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

(h) Leases

Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases (note 20). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property, or if lower the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in short-term and long term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term. Leases in which a significant portion of the risks and rewards of ownership

are not transferred to the group as lessee are classified as operating leases (note 20). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease. Lease income from operating leases where the group is a lessor is recognised in income on a straight-line basis over the lease term.

(i) Impairment of assets

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

(j) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of 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.

(k) Trade Receivables

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

(l) Investments and other financial assets**Classification**

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

(i) Loans and receivables

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

(m) Property, Plant and Equipment

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

(n) Leasehold improvements

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

(o) Intangible Assets*(i) Goodwill*

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

(ii) Patents and licences

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

(iii) Research and development

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

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 to 45 days of recognition.

(q) Borrowings

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

(r) Provisions

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

(s) Employee benefits*(i) Wages and salaries and annual leave*

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

(ii) Other long-term employee benefit obligations

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

(iii) Superannuation and Pension Benefits

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

(iv) Employee benefits on-costs

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

(v) Share-based payments

Share-based compensation benefits are offered to the directors and employees via the Starpharma Holdings Limited Employee

Employee Share Plan (\$1,000 Plan), and an Employee Performance Rights Plan. Information relating to these plans is set out in note 25 and section D of the remuneration report under the directors' report.

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

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

(vi) Bonus payments

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

(vii) Termination benefits

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

(t) Contributed equity

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

(u) Dividends

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

(v) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the

financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

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

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

(x) Rounding of amounts

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

(y) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions [AASB 2] (effective from 1 January 2010)

The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share-based payment arrangement should be measured, that is, whether it is measured as an equity- or a cash-settled transaction. The group will apply these amendments retrospectively for the financial reporting period commencing on 1 July 2010. There will be no impact on the group's financial statements.

(ii) AASB Interpretation 19 Extinguishing financial liabilities with equity instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19 (effective from 1 January 2010)

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the group or parent entity's financial statements.

2. Financial risk management

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

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

(a) Market risk

(i) Foreign Exchange Risk

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

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

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

	Consolidated	
	2010	2009
	US	US
	\$'000	\$'000
Cash and cash equivalents	3,890	2,876
Trade and other receivables	733	923
Trade and other payables	898	810
Deferred Income	508	675

Group Sensitivity

The group is mainly exposed to US dollars. The following table details the group's sensitivity to a 10% increase and decrease in the Australian dollar against the US dollar. A 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	
	2010	2009
	\$'000	\$'000
Impact on profit / (loss) on a movement of the US Dollar:		
Australian dollar strengthens (increases) against the US Dollar by 10%	(343)	(259)
Australian dollar weakens (decreases) against the US Dollar by 10%	420	317

(ii) Cash Flow Interest Rate Risk

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

	Consolidated	
	2010	2009
	\$'000	\$'000
Deposits at call	20,141	8,856

Group Sensitivity

At 30 June 2010, 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

\$103,000 higher or lower (2009 - change of 50 bps: \$46,000 higher/lower) due to either higher or lower interest income from cash or cash equivalents.

(b) Credit risk

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

royalty and licensing receivables from leading, multinational organisations.

(c) Liquidity risk

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

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement for disclosure purposes. The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the group is the current bid price. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives and investments in unlisted subsidiaries) is determined using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market

prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

3. Critical accounting estimates and judgments

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

(a) Critical accounting estimates and assumptions

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

i) Amortisation of finite life intangible assets

The group's management determines the estimated life of the patents underlying the core technology of the business and calculates amortisation accordingly. The estimate is based on the period of expected benefit which currently stands at 4–15 years. This could change as a result of technical innovations or competitor actions in response to severe industry cycles. Management will increase amortisation charges when the useful lives are less than their previously estimated lives. The carrying value of intangible assets at 30 June 2010 is \$13,118,000 (2009: \$15,224,000).

ii) Impairment of Goodwill

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

iii) Income Taxes

The group is subject to income taxes in Australia and the United States of America. There are transactions and calculations undertaken during the ordinary course of business for which the

ultimate tax determination may be uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made. The group has recognised deferred tax assets relating to carried forward losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped.

(b) Critical accounting judgments in applying accounting policies*i) Fair value of intellectual property in purchase price allocation of subsidiary*

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

ii) Impairment of Assets

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

4. Segment information

There are two reportable segments within the group, with companies operating from two locations in Australia and United States of America ("USA"). Dendritic Nanotechnologies Inc. ("DNT") operates from Michigan, USA and it has been determined that on the basis of internal reporting and monitoring of the USA operations, these operations represent a separate reportable

segment to the Chief Executive Officer, who is the chief operating decision maker.

The revised reportable segments are consistent with the previous reported geographic segments; hence there is no impact in presentation of segments for the current or prior year arising from the adoption of AASB 8 *Operating Segments*.

Reportable segments

2010	Australia \$'000	USA \$'000	Inter-segment Eliminations \$'000	Total \$'000
Revenue and other income	5,363	1,160	(615)	5,908
Expenses	(10,244)	(2,639)	594	(12,289)
Loss before income tax	(4,881)	(1,479)	(21)	(6,381)
Segment net assets	28,172	6,701	(29)	34,844
2009	Australia \$'000	USA \$'000	Inter-segment Eliminations \$'000	Total \$'000
Revenue and other income	8,338	1,909	(432)	9,815
Expenses	(10,905)	(3,681)	442	(14,144)
Loss before income tax	(2,567)	(1,772)	10	(4,329)
Segment net assets	16,804	8,696	(1)	25,499

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

5. Revenue and other income

	Consolidated	
	2010 \$'000	2009 \$'000
Revenue and other income		
Royalty, customer & licence revenue	1,404	2,019
Interest revenue	699	105
Other revenue	-	-
Total revenue	2,103	2,124
Australian Government grants	167	379
USA Government grants	3,638	7,312
Total other income	3,805	7,691
Total revenue and other income	5,908	9,815

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	
	2010	2009
	\$'000	\$'000
Loss from continuing operations before income tax expense includes the following items:		
Depreciation	227	375
Amortisation	1,470	1,652
Rental expense on operating leases	341	461
Defined contribution superannuation expense	383	517

7. Income tax expense

	Consolidated	
	2010	2009
	\$'000	\$'000
(a) Income tax expense/(credit)		
Current Tax	5	–
Deferred Tax	(8)	(202)
	(3)	(202)
Income tax expense is attributable to:		
Profit from continuing operations	(3)	(202)
Profit from discontinued operations	–	–
Aggregate income tax credit	(3)	(202)
Deferred income tax credit (revenue) / expense included in income tax credit comprises:		
(Decrease) in deferred tax liabilities	–	(128)
	–	(128)
(b) Numerical reconciliation to income tax credit prima facie tax payable		
Loss from continuing operations before income tax	(6,380)	(4,329)
Tax at the Australian tax rate of 30% (2009: 30%)	(1,914)	(1,299)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
Share-based payments	380	63
Difference in overseas tax rates	47	56
Future income tax benefits not brought to account	1,484	978
Income tax credit	(3)	(202)

(c) Amounts recognised directly in equity

Reduction of deferred tax liabilities of \$8,000 (2009: \$74,000) arising due to foreign exchange movements have been recognised within the foreign currency translation reserve in equity.

(d) Tax losses

Unused tax losses for which no deferred tax asset has been recognised (as recovery is currently not probable)	55,179	51,705
Potential tax benefit	16,554	15,511

(e) Unrecognised temporary differences

Temporary differences for which no deferred tax asset has been recognised as recoverability is not probable	694	899
Unrecognised deferred tax relating to the temporary differences	208	270

Potential future income tax benefits attributable to tax losses carried forward have not been brought to account at 30 June 2010 because the directors do not believe that it is appropriate to regard realisation of the future income tax benefit as probable. Similarly, future benefits attributable to net temporary differences have not been brought to account as the directors do not regard the realisation of such benefits as probable.

Realisation of the benefit of tax losses would be subject to the group satisfying the conditions for deductibility imposed by tax legislation and no subsequent changes in tax legislation adversely affecting the group. The group is making an assessment as to the satisfaction of deductibility conditions at 30 June 2010 which it believes will be satisfied.

8. Current assets – Cash and cash equivalents

	Consolidated	
	2010	2009
	\$'000	\$'000
Cash at bank and on hand	2,710	2,739
Deposits at call	20,141	8,856
	22,851	11,595

Cash at bank and on hand

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

Deposits at call

The deposits are bearing floating interest rates ranging from 0.15% to 6.00% (2009: 0.15% to 4.00%). These deposits are of 30-180 day maturities.

Cash not available

There is \$165,000 of cash not available for use due to restrictions associated with a finance lease and credit card facility which is guaranteed by term deposits (2009: \$187,000).

Interest rate risk

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

30 June 2010		Notes	Floating Interest rate \$'000	Fixed interest maturing						Non- interest bearing \$'000	Total \$'000	Contractual cash flows
				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			
Financial Assets												
Cash and deposits	8	1,280	19,339	–	–	–	–	–	2,232	22,851	N/A	
Receivables	9	–	–	–	–	–	–	–	1,379	1,379	1,379	
		1,280	19,339	–	–	–	–	–	3,611	24,230	1,379	
Weighted average interest rate		3.1%	5.4%	–%	–%	–%	–%	–%	–%			
Financial Liabilities												
Payables and provisions	12	–	–	–	–	–	–	–	1,934	1,934	1,934	
Borrowings	13	–	160	–	–	–	–	–	–	160	160	
Deferred income		–	–	–	–	–	–	–	629	629	629	
		–	160	–	–	–	–	–	2,563	2,723	2,723	
Weighted average interest rate		–%	7.8%	–%	–%	–%	–%	–%	–%			
30 June 2009												
30 June 2009		Notes	Floating Interest rate \$'000	Fixed interest maturing						Non- interest bearing \$'000	Total \$'000	Contractual cash flows
				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			
Financial Assets												
Cash and deposits	8	7,627	1,656	–	–	–	–	–	2,312	11,595	N/A	
Receivables	9	–	–	–	–	–	–	–	1,581	1,581	1,581	
		7,627	1,656	–	–	–	–	–	3,893	13,176	1,581	
Weighted average interest rate		2.8%	1.9%	–%	–%	–%	–%	–%	–%			
Financial Liabilities												
Payables and provisions	12	–	–	–	–	–	–	–	2,100	2,100	2,100	
Borrowings	13	–	133	160	–	–	–	–	–	293	293	
Deferred income		–	–	–	–	–	–	–	955	955	955	
		–	133	160	–	–	–	–	3,055	3,348	3,348	
Weighted average interest rate		–%	8.0%	7.8%	–%	–%	–%	–%	–%			

9. Current assets – Trade and other receivables

	Consolidated	
	2010	2009
	\$'000	\$'000
Trade and grant receivables	932	1,344
Interest receivables	315	35
Prepayments	56	100
Other receivables	76	102
	1,379	1,581

Trade and grant receivables

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

Credit risk

The group considers that there is no significant concentration of credit risk with respect to current receivables. Grant receivables are with government bodies and royalty receivables are from large, well respected companies. Loans to controlled entities are

assessed for recoverability and provisions are applied as considered appropriate.

Impaired receivables

As at 30 June 2010, trade and grant receivables of \$140,000 (2009: \$234,000) were past due. These relate to grant funding and customers for whom there is no recent history of default. No receivables are considered impaired at 30 June 2010 (2009: nil) other than from subsidiaries within the group.

Other receivables

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

10. Non-current assets – 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 2008				
Cost	2,270	1,141	614	4,025
Accumulated depreciation and amortisation	(1,882)	(1,124)	(261)	(3,267)
Net book amount	388	17	353	758

Year ended 30 June 2009

Opening net book amount	388	17	353	758
Exchange differences	25	–	–	25
Additions	49	–	–	49
Disposals	(10)	–	–	(10)
Depreciation and amortisation	(227)	(9)	(139)	(375)
Closing net book amount	225	8	214	447

At 30 June 2009

Cost	2,337	1,141	294	3,772
Accumulated depreciation and amortisation	(2,112)	(1,133)	(80)	(3,325)
Net book amount	225	8	214	447

Year ended 30 June 2010

Opening net book amount	225	8	214	447
Exchange differences	(4)	–	–	(4)
Additions	26	–	–	26
Disposals	(24)	–	–	(24)
Depreciation and amortisation	(85)	(3)	(138)	(226)
Closing net book amount	138	5	76	219

At 30 June 2010

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

11. Non-current assets – Intangible assets

Consolidated	Patents & Licences \$'000	Goodwill \$'000	Total Intangibles \$'000
At 30 June 2008			
Cost	16,065	1,547	17,612
Accumulated depreciation and amortisation	(2,972)	–	(2,972)
Net book amount	13,093	1,547	14,640
Year ended 30 June 2009			
Opening net book amount	13,093	1,547	14,640
Exchange differences	1,948	288	2,236
Depreciation and amortisation	(1,652)	–	(1,652)
Closing net book amount	13,389	1,835	15,224
At 30 June 2009			
Cost	18,244	1,835	20,079
Accumulated depreciation and amortisation	(4,855)	–	(4,855)
Net book amount	13,389	1,835	15,224
Year ended 30 June 2010			
Opening net book amount	13,389	1,835	15,224
Exchange differences	(548)	(88)	(636)
Depreciation and amortisation	(1,470)	–	(1,470)
Closing net book amount	11,371	1,747	13,118
At 30 June 2010			
Cost	17,578	1,747	19,325
Accumulated depreciation and amortisation	(6,207)	–	(6,207)
Net book amount	11,371	1,747	13,118

(a) Impairment tests for goodwill

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

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

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

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

The market capitalisation of the Starpharma group is used to determine an approximation of the fair value less costs to sell of the two CGUs which make up the group. Given the excess of the market capitalisation of Starpharma Holdings Limited over the carrying value of total assets (including goodwill) at 30 June 2010, goodwill is not considered to be impaired at the end of the reporting period.

(c) Impairment tests for finite life intangible assets

Identifiable intangible assets with finite lives are carried at cost less accumulated amortisation and adjusted for any accumulated impairment loss. The directors have assessed these assets for indicators of impairment at 30 June 2010 and determined that there is no indication that the asset is impaired.

12. Current liabilities – Trade and other payables

	Consolidated	
	2010	2009
	\$'000	\$'000
Trade payables	1,346	1,764
Other payables	235	–
	1,581	1,764

13. Current and Non-current liabilities – Borrowings

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default. The carrying value of leased assets is \$160,000 at 30 June 2010 (2009: \$293,000).

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

2009		Floating Interest rate		Fixed interest rate					
	Notes	1 year or less \$'000	Over 1–2 years \$'000	Over 2–3 years \$'000	Over 3–4 years \$'000	Over 4–5 years \$'000	Over 5 years \$'000	Total \$'000	
Lease Liabilities	20	–	133	160	–	–	–	293	
Weighted average interest rate		–%	8.0%	7.8%	–%	–%	–%	–%	

14. Contributed equity

(a) Share Capital

	Parent Entity		Parent Entity	
	2010 Shares	2009 Shares	2010 \$'000	2009 \$'000
Share Capital				
Ordinary shares – fully paid	238,842,208	207,218,113	101,766	85,640

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue Price	\$'000
01 Jul 2008	Opening balance	179,715,153		78,667
8 Apr 2009	Share placement (Tranche I)	11,853,844	\$0.26	3,082
22 May 2009	Share placement (Tranche II)	8,000,000	\$0.26	2,080
22 May 2009	Share purchase Plan	7,649,116	\$0.26	1,989
	less transaction costs			(178)
	Balance at 30 June 2009	207,218,113		85,640
24 Nov 2009	Share placement	30,000,000	\$0.52	15,600
	less transaction costs			(563)
25 Jan 2010	Employee share plan (\$1,000) issue	25,524	\$0.70	18
29 Jan 2010	Proceeds on exercise of employee options	10,000	\$0.50	5
11 Feb 2010	Proceeds on exercise of employee options	60,000	\$0.50	30
22 Feb 2010	Proceeds on exercise of employee options	40,000	\$0.50	20
25 Feb 2010	Proceeds on exercise of employee options	20,000	\$0.50	10
31 Mar 2010	CEO equity incentive plan share issue	1,428,571	\$0.69	986
24 Jun 2010	Proceeds on exercise of employee options	40,000	\$0.50	20
	Balance at 30 June 2010	238,842,208		101,766

(c) Ordinary shares

As at 30 June 2010 there were 238,842,208 issued ordinary shares. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. There is no current on-market share buy-back.

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

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

(e) CEO Equity Incentive Plan

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

(f) Employee performance rights plan

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

(g) Options

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

(h) Capital risk management

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

15. Reserves

(a) Reserves

	2010 \$'000	Consolidated 2009 \$'000
Share-based payments reserve	2,412	2,148
Foreign currency translation reserve	(1,751)	(1,084)
Asset revaluation reserve	2,215	2,215
	2,876	3,279

(b) Movement in reserves

	2010 \$'000	Consolidated 2009 \$'000
Share-based payments reserve		
Balance at 1 July	2,148	1,939
Share option expense	182	209
Performance right expense	82	–
Balance at 30 June	2,412	2,148
Foreign currency translation reserve		
Balance at 1 July	(1,084)	(3,145)
Currency translation differences arising during the year	(667)	2,061
Balance at 30 June	(1,751)	(1,084)

(c) Nature and purpose of reserves

(i) *Share-based payments reserve*

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

reserve, as described in Note 1(d). The reserve is recognised in income statement when the net investment is disposed of.

(ii) *Foreign currency translation reserve*

Exchange differences arising on translation of the foreign subsidiary are taken to the foreign currency translation

(iii) *Asset revaluation reserve*

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

16. Accumulated Losses

	2010 \$'000	Consolidated 2009 \$'000
Accumulated losses balance at 1 July	(63,420)	(59,293)
Net loss for the year	(6,378)	(4,127)
Accumulated losses balance at 30 June	(69,798)	(63,420)

17. Key management personnel disclosures

(a) Key management personnel compensation

	Consolidated	
	2010 \$'000	2009 \$'000
Short-term employee benefits	1,550	1,273
Post-employment benefits	267	350
Other long term benefits	31	8
Termination benefits	–	117
Share-based payments	1,185	104
	3,033	1,852

Detailed remuneration disclosures are provided in sections A-D of the remuneration report on pages 12 to 19.

(b) Equity instrument disclosures relating to key management personnel

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

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report on pages 16 to 19.

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.

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

2009							
Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year [#]	Balance at the end of the year	Vested and exercisable at the end of the year	Unvested
Directors of Starpharma Holdings Limited							
J K Fairley	1,150,000	–	–	(500,000)	650,000	450,000	200,000
Other key management personnel of the group							
B P Rogers	420,000	200,000	–	(220,000)	400,000	200,000	200,000
J R Paull	280,000	275,000	–	(80,000)	475,000	200,000	275,000
C P Barrett	300,000	275,000	–	–	575,000	300,000	275,000
N J Baade	200,000	225,000	–	–	425,000	200,000	225,000
D J Owen	200,000	225,000	–	–	425,000	200,000	225,000
R I Berry ¹	250,000	–	–	–	250,000	250,000	–

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

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

Performance rights holdings

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

On 31 March 2010, J K Fairley was granted 750,000 rights to ordinary shares as part of a CEO equity incentive plan. The granting of these performance rights was approved by shareholders on 25 March 2010.

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

Share holdings

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

On 31 March 2010, the J K Fairley was granted 1,428,571 fully paid ordinary shares as part of the CEO equity incentive plan. The granting of these shares was approved by shareholders on 25 March 2010.

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

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

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

2009				
Name	Balance at the start of the year	Granted during the year as compensation	Other changes during the year	Balance at the end of the year
Directors of Starpharma Holdings Limited				
Ordinary Shares				
P T Bartels	129,804	-	-	129,804
J K Fairley	53,750	-	-	53,750
J W Raff	6,496,874	-	783,903	7,280,777
R Dobinson	-	-	-	-
P J Jenkins	1,416,000	-	-	1,416,000
R A Hazleton	42,616	-	100,000	142,616
Other key management personnel of the group				
Ordinary Shares				
B P Rogers	65,622	-	-	65,622
J R Paull	-	-	-	-
C P Barrett	-	-	-	-
N J Baade	-	-	-	-
D J Owen	-	-	-	-
R I Berry ¹	70,296	-	-	70,296

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

18. Remuneration of auditors

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the consolidated group are important. Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and

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

	2010 \$	Consolidated 2009 \$
(a) Statutory audit services		
Audit or review of financial reports of the entity or any entity in the consolidated entity		
PricewaterhouseCoopers	124,500	129,000
Other auditors of controlled entities	-	27,137
Total remuneration for statutory audit services	124,500	156,137
(b) Other audit services		
Other audit services: Grant reviews & program audits		
PricewaterhouseCoopers	27,300	22,500
Total remuneration for other audit services	27,300	22,500
Total remuneration of auditors	151,800	178,637

19. Contingencies

The Company has no contingent assets or liabilities at 30 June 2010 (2009: nil).

20. Commitments

(a) Capital Commitments

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

	Consolidated	
	2010	2009
	\$'000	\$'000
Property, plant and equipment		
Within one year	–	–
Later than one year but not later than five years	–	–
Later than five years	–	–
	–	–

(b) Lease Commitments

	Consolidated	
	2010	2009
	\$'000	\$'000
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Not later than one year	452	402
Later than one year and not later than five years	59	228
Later than five years	–	–
	511	630
Representing:		
Cancellable operating leases	351	337
Non-cancellable finance lease	164	315
Future finance charges on finance leases	(4)	(22)
	511	630

Operating leases

The group leases laboratory and offices under a lease until 31 August 2011 and leases various plant and equipment under cancellable operating leases.

	Consolidated	
	2010	2009
	\$'000	\$'000
Commitments for minimum lease payments in relation to cancellable operating leases are payable as follows:		
Not later than one year	293	269
Later than one year and not later than five years	58	68
Later than five years	–	–
Representing cancellable operating leases	351	337

Finance Leases

The group leases plant and equipment with a carrying amount of \$160,000 (2009: \$293,000) under a finance leases expiring within one year.

		Consolidated	
		2010	2009
		\$'000	\$'000
Commitments in relation to finance leases are payable as follows:	Notes		
Not later than one year		164	151
Later than one year and not later than five years		–	164
Later than five years		–	–
Minimum lease payments		164	315
Future finance charges		(4)	(22)
Recognised as a liability		160	293
Representing finance lease liabilities:			
Current	13	160	133
Non-Current	13	–	160
		160	293

The weighted average interest rate implicit in the lease is 7.8% (2009: 7.9%).

(c) Expenditure Commitments

The group has entered into various agreements for research and development services. These agreements have typical termination provisions to limit the commitment to the time and materials expended at termination, or up to an approved work order amount. Other committed expenditure is reimbursable under existing grant funding sources.

(d) Termination Commitments

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

21. Subsidiaries

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

			Equity Holding	
Name of entity	Country of Incorporation	Class of Shares	2010	2009
			%	%
Starpharma Pty Limited	Australia	Ordinary	100.00%	100.00%
Angiostar Pty Limited	Australia	Ordinary	100.00%	100.00%
Viralstar Pty Limited	Australia	Ordinary	100.00%	100.00%
Dendritic Nanotechnologies Inc.	USA	Ordinary	100.00%	100.00%

22. Events occurring after the balance sheet date

On 15 July 2010 the Company announced it had received clearance from the US Food and Drug Administration (FDA) to commence a phase 2 study to investigate VivaGel[®] for the treatment of bacterial vaginosis (BV). VivaGel[®] is under investigation for both the short term treatment and longer term suppression of recurrence of BV in women. This initial phase of the clinical program will investigate the treatment of BV with a once daily for seven days treatment of VivaGel[®] and its findings will

guide further investigation of suppression of recurrence. The study will be conducted under an investigational new drug application (IND) at sites in US and will enrol 132 women.

There are no other significant events occurring since 30 June 2010 that have significantly affected or may significantly affect the operations of the group, the results of those operations, or the state of the group.

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

	Consolidated	
	2010 \$'000	2009 \$'000
Operating loss after tax:	(6,378)	(4,127)
Depreciation and amortisation	1,697	2,028
Foreign exchange (gains) / losses	75	(1,378)
Non-cash employee benefits: share-based payments	1,268	209
Change in operating assets and liabilities, net of effects of acquisitions and disposals of entities:		
Decrease in receivables and other assets	202	39
Increase (decrease) increase in trade creditors	(183)	142
Decrease in deferred tax liabilities	-	(128)
Increase (decrease) in employee provisions	15	(118)
Decrease in deferred income	(326)	(693)
Gain on sale of property, plant and equipment	-	(3)
Net cash outflows from operating activities	(3,630)	(4,029)

24. Earnings per share

	Consolidated	
	2010 \$	2009 \$
Basic loss per share	(0.03)	(0.02)
Diluted loss per share	(0.03)	(0.02)
Net loss attributable to members of Starpharma Holdings Ltd used as the numerator in calculating diluted and basic earnings per share (\$'000)	(6,378)	(4,127)
Weighted average number of ordinary shares outstanding during the year used as the denominator in calculating diluted and basic earnings per share	225,551,542	184,082,782

25. Share-based payments

Options

(a) Employee Option Plan

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

(b) Individual Option Deeds

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

(c) Options Attached to a Share Placement

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

Set out below are summaries of options under the schemes:

2010

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

^a Options granted under the Employee Option Plan.

^b Options granted under individual option deeds.

^c Options granted under a share placement.

No options were granted in the current year.

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

^a Options granted under the Employee Option Plan.

^b Options granted under individual option deeds.

^c Options granted under a share placement.

No options were exercised during the prior year.

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.98 years (2009: 3.00 years).

(d) Fair value of options granted

The weighted average assessed fair value at grant date of options granted during the year ended 30 June 2009 was \$0.17 per option. There were no options granted in the current year. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant

date and the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option. The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information. Options are granted for no consideration, and have varying exercise and expiry dates.

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

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

Shares

(a) CEO Equity Incentive Plan

On 25 March 2010 the CEO Equity Incentive Plan was approved by shareholders for the issue of 1,428,571 fully paid ordinary shares and 750,000 performance rights (being rights to receive fully paid ordinary shares subject to continued employment with the Company and the satisfaction of certain performance hurdles over a specified period). The CEO, Dr Jacinth Fairley was granted the shares and rights on 31 March 2010. The shares and performance rights were issued for no consideration. Dr Fairley was engaged as the Company's Chief Executive Officer in July 2006 and charged with a brief to commercialise Starpharma's technology portfolio, it was agreed as part of her remuneration package Dr Fairley would be rewarded for her performance with an entitlement to equity of between \$1 million and \$2 million within three years provided certain goals were met. These long term and short term goals are typical of a biotechnology company in Starpharma's lifecycle. The Board has the view that the Company has achieved superior performance under the stewardship of Dr Fairley and has achieved a number of significant milestones during this period. Accordingly, the Board is of the view that Dr Fairley's performance has been outstanding during the period. The plan contains two tranches to recognise her achievements and to

provide the appropriate incentives for future performance. Further information is provided in section D of the remuneration report.

(b) Employee Share Plan (\$1,000 Plan)

All executives and staff, excluding directors, are eligible to participate in the Starpharma Employee Share Plan (\$1,000 Plan). The objective of the \$1,000 Plan is to assist in the recruitment, reward, retention and motivation of employees of the company. The \$1,000 Plan was established during the current year as a part replacement for the Starpharma Employee Share Option Plan after recent adjustments to relevant legislation. An annual allocation of up to \$1,000 of shares may be granted and taxed on a concessional basis. Shares are granted under the \$1,000 Plan for no consideration and are escrowed for 3 years while participants are employed by the Company.

(c) Fair value of shares granted

The weighted average assessed fair value at grant date of employee shares granted during the year ended 30 June 2010 was \$0.69 per share. There were no employee shares granted in the prior year. The fair value at grant date is determined by the share price on the date of grant. Employee shares were granted for no consideration.

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

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

Employee Performance Rights

(a) CEO Equity Incentive Plan

Details are provided in section D of the remuneration report.

Performance rights are granted under the Plan for no consideration.

(b) Employee Performance Rights Plan

In 2010 the Board approved the introduction of the Starpharma Employee Performance Rights Plan. All executives and staff are eligible to participate in the Plan. Except for the performance rights outlined under the CEO Equity Incentive Plan, no allocations have been made in the current year; however an allocation to other employees has been made subsequent to the end of the financial year. The objective of the Plan is to assist in the recruitment, reward, retention and motivation of employees of the company. The Plan allows for the issue of performance rights (being rights to receive fully paid ordinary shares subject to continued employment with the Company and the satisfaction of certain performance hurdles over a specified period). A further holding lock period may also be applied to restrict disposal after the vesting date.

(c) Fair value of performance rights granted

The weighted average assessed fair value at grant date of performance rights granted during the year ended 30 June 2010 was \$0.33 per right. There were no performance rights granted in the prior year. The estimated fair value at grant date is determined using a modified Black-Scholes option pricing model that takes into account the exercise price, the performance measure, the term of the right, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option. The expected price volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information. Performance rights are granted for no consideration.

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

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

Expenses arising from share-based payment transactions

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

	Consolidated	
	2010 \$'000	2009 \$'000
Options issued under employee option plan	182	207
Options issued under deed	-	2
Employee shares issued	1,004	-
Employee performance rights issued	82	-
	1,268	209

26. Related party transactions

(a) Parent entity and subsidiaries

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

(b) Key management personnel

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

(c) Transactions with related parties

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

27. Parent entity financial information

(a) Summary financial information

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

	2010	Parent 2009
	\$'000	\$'000
Balance Sheet		
Current assets	19,553	8,556
Total assets	42,410	30,889
Current liabilities	1,624	1,566
Total liabilities	1,624	1,566
<i>Shareholders' equity</i>		
Contributed equity	101,766	85,640
Reserves	1,903	1,903
Accumulated losses	(62,883)	(58,220)
Loss for the year	(4,663)	(882)
Total comprehensive income	(4,663)	(882)

(b) Contingencies of the parent entity

The parent entity has no contingent assets or liabilities at 30 June 2010 (2009: nil).

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 26 to 60 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 group's financial position as at 30 June 2010 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards.

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, 25 August 2010

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

Report on the financial report

We have audited the accompanying financial report of Starpharma Holdings Limited (the company), which comprises the balance sheet as at 30 June 2010, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Starpharma Holdings Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation 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 (a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

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

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

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Starpharma Holdings Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1 (a).

Report on the Remuneration Report


We have audited the remuneration report included in sections A to D of the directors' report for the year ended 30 June 2010. 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 2010, complies with section 300A of the *Corporations Act 2001*.



PricewaterhouseCoopers



Anton Linschoten
Partner

Melbourne
25 August 2010

Shareholder Information

The shareholder information set out below was applicable as at 31 July 2010

Supplementary information as required by ASX listing requirements.

A. Distribution of equity shareholders

Analysis of numbers of equity security holders by size of holding

	Class of equity security		
	Shares	Options	Performance rights
1–1,000	187	–	–
1,001–5,000	790	–	–
5,001–10,000	494	–	–
10,001–100,000	955	27	–
100,000 and over	195	13	1
Total	2,621	40	1

There were 96 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:

Name	Number held	Ordinary shares
		Percentage of issued shares
1. National Nominees Limited	55,611,994	23.28
2. J P Morgan Nominees Australia Limited	17,413,370	7.29
3. Citicorp Nominees Pty Limited	15,434,430	6.46
4. HSBC Custody Nominees (Australia) Limited	11,058,903	4.63
5. ANZ Nominees Limited <Cash Income A/C>	5,635,663	2.36
6. Mr Peter Malcolm Colman	5,357,286	2.24
7. T & N Argyrides Investments P/L <Super Fund A/C>	5,000,000	2.09
8. Weresyd Proprietary Limited <Sif A/C>	4,358,756	1.82
9. Kenneth Nominees Pty Ltd <Rayse Super Fund A/C>	3,900,000	1.63
10. JPS Distribution Pty Ltd <Raff S/F A/C>	3,567,831	1.49
11. Gilridge Pty Ltd	3,073,516	1.29
12. Applecross Secretarial Services Pty Ltd <Gorr Pension Plan A/C>	3,042,462	1.27
13. VCAMM Limited	2,597,302	1.09
14. Commonwealth Scientific And Industrial Research Organisation	2,448,798	1.03
15. Harbour Nominees Pty Ltd <SI A/C>	2,231,244	0.93
16. Citicorp Nominees Pty Ltd <Cwlth Bank Off Super A/C>	2,180,808	0.91
17. JPS Distribution Pty Ltd <Raff Family A/C>	1,969,142	0.82
18. Merrill Lynch (Australia) Nominees Pty Limited	1,716,535	0.72
19. Jacinth Fairley	1,428,571	0.60
20. Mr Kingsley Bryan Bartholomew	1,400,000	0.59
	149,426,611	62.56

Unquoted equity securities over ordinary shares

Name	Number on issue	Number of holders
Options issued under the Starpharma Holdings Limited Employee Share Option Plan (ASX code SPLAM)	4,710,000	35
Options issued under individual option deeds	7,607,119	5
Employee Performance Rights	750,000	1
Total	13,067,119	41

C. Substantial holders

Substantial shareholders as shown in substantial shareholder notices received by the Company as at 31 July 2010:

Name	Ordinary shares Number held
Acorn Capital Limited	29,920,807
Orbis Investment Management (Australia) Pty Ltd	27,357,494
The Dow Chemical Company	14,406,827
Platinum-Montaur Life Sciences LLC	9,046,365

D. Voting rights

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

(a) Ordinary shares

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

(b) Options

No voting rights.

(c) Performance Rights

No voting rights.

E. Securities subject to voluntary escrow

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

Type of equity securities	Number of equity securities	Number of holders	Release date
Employee Share Plan (\$1,000 Plan)	25,524	18	25 January 2013
CEO Equity Incentive Plan	750,000	1	1 March 2013

Intellectual Property Report

The Starpharma patent portfolio currently has around 35 active patent families with over 70 granted patents and more than 100 patent applications pending. Four new provisional patent applications were filed during the year.

Key patents within the Starpharma portfolio as at 3 August 2010

Title	Priority Date & International Publication Number	Patents Granted	Applications Pending
VivaGel® Patent Portfolio			
Antiviral Dendrimers	15 June 1994 WO95/34595	Australia, Brazil, Canada, China, Europe, Hong Kong, Mexico, New Zealand, Singapore, South Korea, USA	Japan
Antimicrobial & Antiparasitic Agents	17 September 1998 WO00/15240	Australia, Canada, Europe, Mexico, New Zealand, Singapore, South Korea, USA	China, Japan
Agents for the Prevention & Treatment of Sexually Transmitted Diseases - I	30 March 2001 WO02/079299	Australia, China, Europe, Hong Kong, Japan, Mexico, New Zealand, Singapore, South Korea, USA	Brazil, Canada
Delivery System	18 October 2005 WO07/045009		Argentina, Australia, Canada, China, Europe, Hong Kong, India, Japan, Malaysia, Mexico, New Zealand, Russian Federation, South Korea, Taiwan, USA
Contraceptive Composition	22 March 2006 WO07/106944		Australia, Canada, China, Europe, Japan, USA
Platform Patent Portfolio			
Macromolecules Compounds having Controlled Stoichiometry	25 October 2005 WO07/048190		Australia, Canada, Europe, USA
Modified Macromolecules	10 August 2006 WO07/082331		Australia, Canada, China, Europe, India, Japan, USA
Core-Shell Tectodendrimers	16 February 1999 WO00/049066	Canada, Europe, USA,	Mexico
Dendritic Polymers with Enhanced Amplification and Interior Functionality (Priostar)	20 April 2005 WO06/065266	Japan, Singapore, South Korea,	Argentina, Brazil, Canada, China, Europe, Hong Kong, India, Israel, Japan, Mexico, New Zealand, Taiwan, USA
Dendritic Polymers with Enhanced Amplification and Interior Functionality (PEHAMS 2)	21 December 2005 WO06/115547	Australia	Argentina, Brazil, Canada, China, Europe, Hong Kong, India, Israel, Korea, Mexico, New Zealand, Singapore, Taiwan, USA
Imaging Project Patent Portfolio			
Imaging Macromolecule	11 August 2006 WO08/017122		China, Europe, USA
siRNA Project Patent Portfolio			
Delivery of Biologically Active Materials Using Core-Shell Tecto (Dendritic Polymers)	3 March 2006 WO08/054466		Europe, USA
Drug Delivery Project Patent Portfolio			
Modified Macromolecules 2	11 August 2006 WO2008017125		China, Europe, India, USA

Corporate Directory

Company name

Starpharma Holdings Limited
ABN 20 078 532 180

Directors

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

Company Secretary

Ben Rogers

Other Management

Nigel Baade	Chief Financial Officer
Paul Barrett	VP, Business Development
Malcolm McColl	VP, Business Development
David Owen	VP, Research
Jeremy Paull	VP, Development and Regulatory Affairs
Roman Salij	VP, Business Development, DNT (USA)

Registered office

Baker Building
75 Commercial Road,
Melbourne, Victoria 3004 Australia

Telephone +61 3 8532 2700
Fax +61 3 9510 5955

Postal address

GPO Box 6535
St Kilda Road Central, VIC 8008 Australia

Share register

Computershare Investor Services
452 Johnston Street, Abbotsford VIC 3067

GPO Box 2975
Melbourne, VIC 3001

1300 850 505 (within Australia)
+613 6415 4000 (outside Australia)
www.computershare.com

Auditor

PricewaterhouseCoopers
Freshwater Place
Southbank VIC 3006 Australia

Solicitors

Norton Rose
RACV Tower, 485 Bourke Street
Melbourne VIC 3000 Australia

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

Stock exchange listing

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

ASX Code: SPL

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

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

Website address

www.starpharma.com

Annual General Meeting

Thursday 11 November 2010 at 4.00pm
Norton Rose Australia
RACV Tower, 485 Bourke Street,
Melbourne Victoria 3000

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

