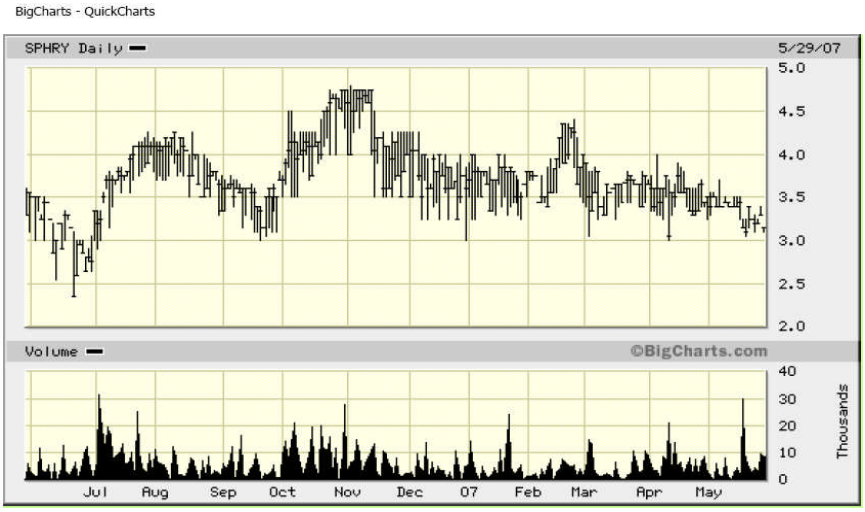
# STARPHARMA HOLDINGS Ltd.

**We are maintaining our SPECULATIVE BUY Rating for SPHRY.**

**Starpharma's lead dendrimer product, VivaGel™, addresses markets with huge potentials. Starpharma's VivaGel stands at the forefront of global HIV/AIDS prevention strategies.**




Source: www.BigCharts.com

**UPDATE REPORT**
**05, 31, 2007**

**ANALYST:**
**Mohammad Sharifzadeh**
**PhD, CFA**

**SPHRY: OTCQX**
**SPL: ASX**

**INDUSTRY:**
**PHARMACEUTICAL**

**RATING: SPECULATIVE BUY**

## STARPHARMA'S FACTS

**Recent Price**
**SPHRY: US $3.15**
**SPL: A$0.370**

**SPL Shares O/S**
**167.8 mil.**

**52 Week Range**
**$2.35-$4.75**

**Year End**
**June 30**

## KEY STATISTICS

| | | | |
|---|---|---|---|
| Target Price | NA | Cash and Cash Equivalents (Dec 31, 200 | A$11,176,046 |
| Recent Price: SPHRY/SPL | US$3.15/A$0.370 | Operating Cash Flows | A$(2,800,867) |
| Average Daily Volume (90 Days) | 5,570 | Net working Capital (Dec 31, 2007) | A$11,387,964 |
| Market Capitalization[1] | A$62.1 mil. | Shareholder's Equity (Dec 31, 2007) | A$30,172,758 |
| P/E Multiple | NA | Gross Margin | NA |
| P/R Multiple | 13.3 | Operating Margin | NA |
| P/B Multiple | 2.3 | Net Margin | NA |
| PEG Ratio | NA | Cash Burn Rate | A$467,000/months |

1-Based on SPL closing price of A$0.370 as of 5/29//07 and the basic number of SPL outstanding

## INVESTMENT HIGHLIGHTS

### Potentials

- Starpharma's lead dendrimer product, VivaGel™, addresses markets with huge potentials.
- VivaGel™ has received clearance from the U.S. FDA for human clinical trials and the company has already started the clinical development of VivaGel™ for prevention of HIV and genital herpes.
- The results of human clinical trials conducted in the U.S. and other countries could bring VivaGel™ one step closer to commercialization stage.
- Through its growing R&D efforts Starpharma has discovered and is developing dendrimers for a wide range of diseases and applications.
- Starpharma's acquisition of the U.S. based Dendritic Nanotechnologies Inc. provides valuable synergies including more U.S. presence, extensive IP portfolio, road to commercialization, and a more diversified product base.
- The broad range of patents owned by Starpharma including those of DNT makes the company an attractive takeover candidate by large pharmaceutical companies.

### Risks

- Starpharma is at a pre-commercialization stage and its main source of revenue is various governments' grants.
- Commercialization of VivaGel™ depends on the results of clinical trials on humans and its approval by regulatory authorities, in particular approval by the U.S. FDA.
- Large pharmaceutical companies might come out with products similar to VivaGel™ or with other products in Starpharma's pipeline with competitive advantage.
- The growing concern over safety, health, and environmental issues of nanotechnology might delay commercialization of some of Starpharma's and DNT's dendrimers products.

## COMPANY OVERVIEW

Starpharma Holdings Limited is an Australian-based company engaged in the development and application of dendrimer nanotechnologies as drugs and in other life science applications. Starpharma's business strategy is to use dendrimer-based nanotechnology to discover, develop and commercialize pharmaceuticals for serious human diseases and in life sciences.

Starpharma's value comes from its opportunities for substantial revenues from three key areas (a) VivaGel™, intended to prevent the transmission of HIV, genital herpes, and other sexually transmitted infections, (b) other medical and life science applications, and (c) industrial applications of dendrimers.

VivaGel™ is Starpharma's lead dendrimer product. VivaGel™ is a vaginal microbicide gel being developed as a preventative against Sexually Transmitted Infections (STIs). VivaGel is initially targeted at HIV and genital herpes, and is currently undergoing human expanded safety trials in Melbourne, Australia, San Francisco, USA, and Kisumu, Kenya.

VivaGel™ has received clearance from the U.S. FDA for human clinical trials under two INDs and in two indications; the prevention of HIV and genital herpes. The VivaGel clinical trials are funded by the US National Institute of Allergy and Infectious Diseases (NIAID), part of the National Institutes of Heath (NIH).

Starpharma is currently pursuing two clinical trials of VivaGel™. A safety trial in men being conducted in Melbourne, Australia, and an expanded female safety study conducted at two trial sites in San Francisco, USA and Kisumu, Kenya.

Starpharma recruitment for the Melbourne trial was completed in February 2007. Thirty-seven healthy male volunteers have entered this trial which is designed to provide information on both the safety and distribution in the body of VivaGel when applied topically once a day for seven days. Starpharma has reported that the product has been well tolerated during the trial and the results will provide useful information for the development of VivaGel for both HIV and genital herpes prevention.

According to Starpharma's February 2007 Corporate Presentation progress with the female safety studies in the USA and Kenya is also on track. Recruitment at both sites is progressing well as planned, with promotional activities for further recruitment underway. This will be the first clinical trial of VivaGel for the prevention of genital herpes application.

On October 20, 2006 Starpharma completed 100% acquisition of the U.S. based Dendritic Nanotechnologies Inc. (DNT) and thus entered into many other areas of dendrimers. DNT has ownership of 33 patent families and more than 182 patents that cover a wide range of dendrimer applications. Priostar™ and PrioFect™ are the two lead products of DNT. Priostar™ dendrimers are a novel nanoscale polymer technology that is being made available commercially. It is seen to have the potential to promote adhesion, accelerate curing, strengthen resins and polymers, recycle catalysts, improve ultra filtration, calibrate nanoporosity, and enhance cross-linking and low viscosity. Potential applications range from high performance adhesives, electronics, resins, and genetic medicine. PrioFect™ is a "transfection agent", a research reagent that improves the ability of scientists to introduce genetic material into cells. One of its most exciting applications is in the transfection of siRNA into cells.

Starpharma's proprietary dendrimer platform, which includes Priostar, also has potential in targeted diagnostics and in drug delivery for a wide variety of drugs. Improvements including enhanced solubility, targeting and reduced toxicity have been demonstrated for a number of existing drugs. More broadly the company, via DNT, is actively exploring dendrimer opportunities in materials science with applications as diverse as adhesives, lubricants and water remediation. SPL has a comprehensive IP portfolio that comprises more than 180 patents/applications issued and pending across 32 patent families - a unique level of IP concentration among nanotechnology companies.

Starpharma's product pipeline is shown in the Figure1 below:

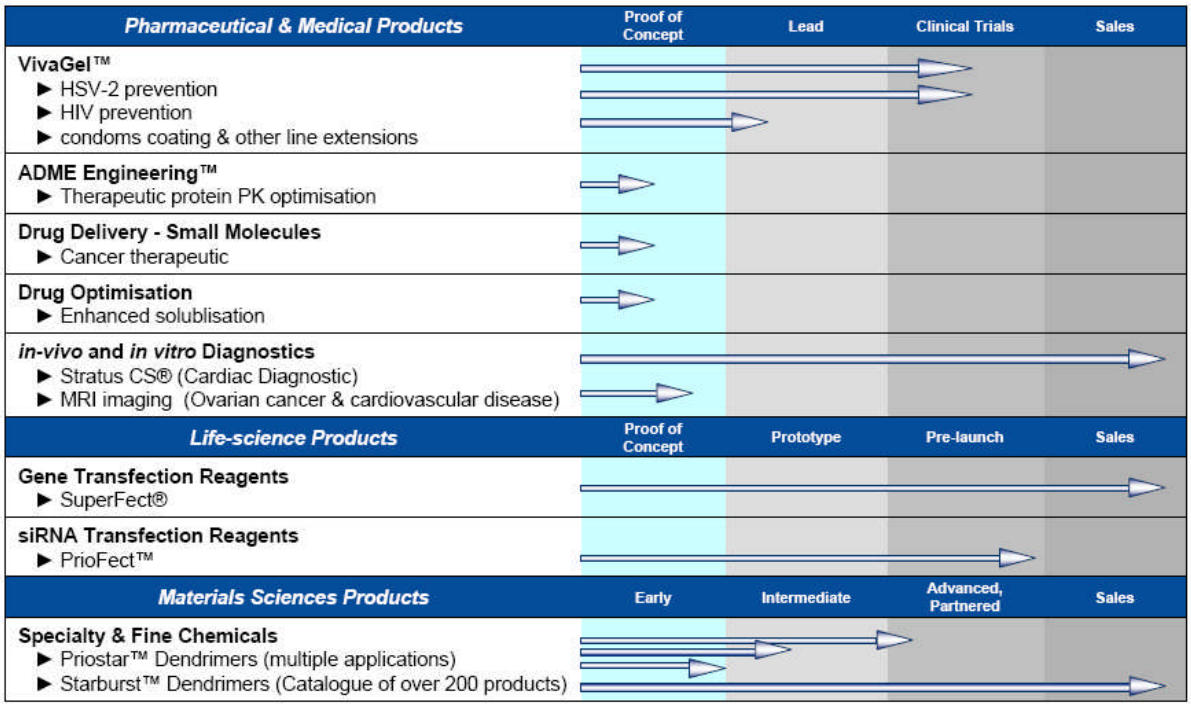



*Figure1*. Starpharma's product pipeline

Shares of common stock of Starpharma trade on the Australian Stock Market (ASX) under the symbol SPL. In January 2005, Starpharma's American Depository Receipts (ADR) Program was launched through the Bank of New York with each ADR representing 10 SPL shares. Starpharma ADR trades under the symbol SPHRY in OTC Pink Sheet.

Since its inception, the number of ADRs on issue has been growing at an average rate of 6.4% per month. Specifically, since the acquisition of DNT on October 20, 2006, the number of Starpharma's ADRs on issue has grown by 13.6%. As of April 16, 2007 Starpharma's ADR program represented10.8% of the company's issued capital and the company has a US shareholding of about 20%. This includes the Dow Chemical Company which as Starpharma's largest shareholder holds about 8.6% of issued capital.

According to Starpharma's March 26, 2007 news release, Starpharma upgraded its Level 1 ADRs program to International OTCQX, a new premium market tier in the U.S. for international exchange-listed companies, operated by Pink Sheets, LLC. International OTCQX provides a gateway to U.S. securities markets by giving public international companies a vehicle to have their shares traded in the U.S. and provide ongoing disclosure in English to U.S. investors. The upgrading of Starpharma's Level 1 ADRs to International OTCQX is an instrumental step on the way to Level 2 ADRs.

## LATEST FINANCIALS

Starpharma prepares its financial statements in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS) and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with AIFRS ensures that the consolidated financial statements and notes of Starpharma Holdings Limited comply with international Financial Reporting Standards (IFRSs)

### Income Statement

Starpharma's products are at pre-commercialization stage and, therefore, currently Starpharma's Holdings Limited main sources of revenue are various government grants and interest earned on excess cash balances.

During the six months period ending December 31, 2006 Starpharma's revenue from government sources was a total of A$4,822,938 almost twice the A$2,683,774 government related revenue for the similar period in 2005. The government revenue in the second half of 2006 consisted of A$4,700,136 from the USA Government grants (was A$2,363,626 for the similar period in 2005) and A$122,802 from Australian Government P3 grant (was A$320,148 for the similar period in 2005). With A$351,652 interest revenue, A$197,600 customer and license revenue, and A$1,400 other revenues, their total revenue for the six months period ended December 31, 2006 added up to A$5,373,590 an increase of about 89% over A$2,847,455 total revenue for the similar period in 2005.

Starpharma's major expense item is R&D expense which reflects the Company's active strategy of staying as a leading entity in the dendrimer industry. During the second six months of 2006 Starpharma spent A$6,353,382 on research and development projects, an increase of about 26% over A$5,028,653 R&D expenditure of similar period in 2005. Thus, Starpharma's R&D investments in the second half of 2006 were about 120% of its total revenues. For the six months period ended December 31, 2006 Starpharma's general and administration expense was A$2,649,815, an increase of 60% over A$1,659,293 figure for similar period in 2005.

Overall, the Company's net loss for the six months period ended December 31, 2006 was A$3,891,866 which was about 6% lower than net loss of A$4,141,888 for the similar period in 2005. As a result, Starpharma's loss per share decreased from 3.5 Australian Cents in the second half of 2005 to 2.5 Australian Cents in the second half of 2006.

During the second half of 2006 Starpharma did not raise any cash through issue of new shares and its cash expenses were met through its beginning of the period cash balances and through its cash revenues, including government grants.

## Starpharma Holdings Limited Consolidated Income Statement (A$)

| | For the six months ended December 31 | |
|---|---|---|
| | **2006** | **2005** |
| Revenues from continuing operations | 550,652 | 163,681 |
| Other incomes (government grants) | 4,822,938 | 2,683,774 |
| Administration expense | (2,649,815) | (1,659,293) |
| Research and development expense | (6,353,382) | (5,028,653) |
| Finance costs | (20,597) | (12,940) |
| Share of results of associates accounted for using the equity method | (241,662) | (289,457) |
| Loss before income tax | (3,891,866) | (4,142,888) |
| Net loss for the period | (3,891,866) | 4,142,888 |
| Basic loss per share | (2.5) cents | (3.5) cents |
| Diluted loss per share | (2.5) cents | (3.5) cents |

## Balance Sheet

Starpharma has a healthy balance sheet. They have a strong cash position which can support their operating and R&D expenses should there be a shortfall in revenues. Based on their operating net cash outflows for the period ended December 31, 2006, the Company's cash burn rate is estimated to be around A$0.47 million per month. With A$11.2 million in cash and cash equivalent balances as of December 31, 2006 the Company's cash can support operations for almost two years in case of no cash infusion. Moreover, the fact that the company has almost a debt free balance sheet with substantial equity keeps the door open for external financing should the need arises.

As of December 31, 2006 Starpharma's balance sheet showed A$11,176,046 in cash and cash equivalents and A$14,853,848 in current assets. In contrast their total current liabilities was A$3,465,884 yielding a current ratio of 4.3; a very strong number by any standard.

During the second six months of 2006, Starpharma's intangible assets increased by 425% from A$4,086,538 as of June 30, 2006 to A$20,928,765 as of December 31, 2006. This increase in intangible assets was due to Starpharma's acquisition of the remaining 67% equity of Dendritic Nanotechnologies Inc. which was totally financed through issuance of new equity.

Starpharma's long-term obligations and other non-current liabilities are negligible as compared to their total assets and total equity. As of December 31, 2006 Starpharma had total equity of A$30,172,758 and total assets of A$37,180,592, while their total non-current liabilities were just A$3,541,950.

## Starpharma Holdings Limited Consolidated Balance Sheet (A$)

| | 31-Dec-06 | 30-Jun-06 |
|---|---|---|
| Cash and cash equivalents | 11,176,046 | 14,283,824 |
| Trade and other receivables | 3,662,637 | 2,824,267 |
| **Total current assets** | 14,853,848 | 17,108,091 |
| Property, plant and equipment | 1,384,910 | 1,431,124 |
| Intangible assets | 20,928,765 | 4,086,538 |
| Investments accounted for using the equity method | 13,069 | 2,387,312 |
| Total non-current assets | 22,326,744 | 7,904,974 |
| **Total assets** | 37,180,592 | 25,013,065 |
| Total current liabilities | 3,465,884 | 3,032,695 |
| Total non-current liabilities | 3,541,950 | 664,364 |
| **Total liabilities** | 7,007,834 | 3,697,079 |
| **Total equity** | 30,172,758 | 21,315,986 |
| **Total liabilities and equity** | 37,180,592 | 25,013,065 |

## Statement of Cash Flows

During the six months period ended December 31, 2006 Starpharma's cash and cash equivalents decreased from A$14,283,824 at the beginning of period to A$11,176,046 at the end of period. The reason for this decline was mainly due to operating activities and the fact that Starpharma did not sell new shares for cash during the period.

Cash flows from operating activities during the period was negativeA$2,800,867 indicating a large improvement compared to negative operating cash flow of A$4,729,328 during similar period of 2005, mainly due to increase in grant income.

Based on Starpharma's cash outflows from operating activities we estimate Starpharma's cash burn rate to be about A$467,000 per month. At this level of cash burn rate and given the company's cash and cash equivalents as of December 31, 2007, Starpharma can continue its operations for 24 month without external funding. Similar numbers for the second half of 2005 were cash burn rate of A$788,000 per month and 20 months continued operations without external financing.

## Starpharma Holdings Limited Consolidated Statement of Cash Flow (A$)

| | For the six months ended December 31 | |
|---|---|---|
| | 2006 | 2005 |
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| Receipts from trade and other debtors | 175,521 | 32 |
| Grant income (inclusive of GST) | 4,751,230 | 962,662 |
| Payments to suppliers and employees (inclusive of GST) | (8,061,370) | (5,828,301) |
| Interest received | 354,349 | 149,219 |
| Interest expense | (20,597) | (12,940) |
| Net Cash - Operating Activities | (2,800,867) | (4,729,328) |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Payments for property, plants, and equipment (net) | (114,999) | (28,050) |
| Payments for transaction costs on acquisition of subsidiaries (net of cash acquired) | (90,986) | - |
| Other investing changes-net | - | 20,516 |
| Net Cash - Investing Activities | (205,985) | (7,534) |
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| Issuance of debt-net | - | - |
| Proceeds from Issue of shares-net | - | 12,131,829 |
| Lease payments | (100,926) | 31,883 |
| Net Cash - Financing Activities | (100,926) | 12,099,946 |
| Net Change - Cash and Cash Equivalents | (3,107,778) | 7,363,084 |
| Cash Beginning of Period | 14,283,824 | 8,166,259 |
| Cash End of Period | 11,176,046 | 15,529,343 |

## STOCK PRICE BEHAVIOR

With over 72% growth in 2006/2007, Starpharma's ADR program has been very successful since being launched in January 2005. Currently there are about 1.8 million ADRs on issue representing 10.8% of the company's issued capital. The growth in number of ADRs on issue is exhibited in Figure 2.

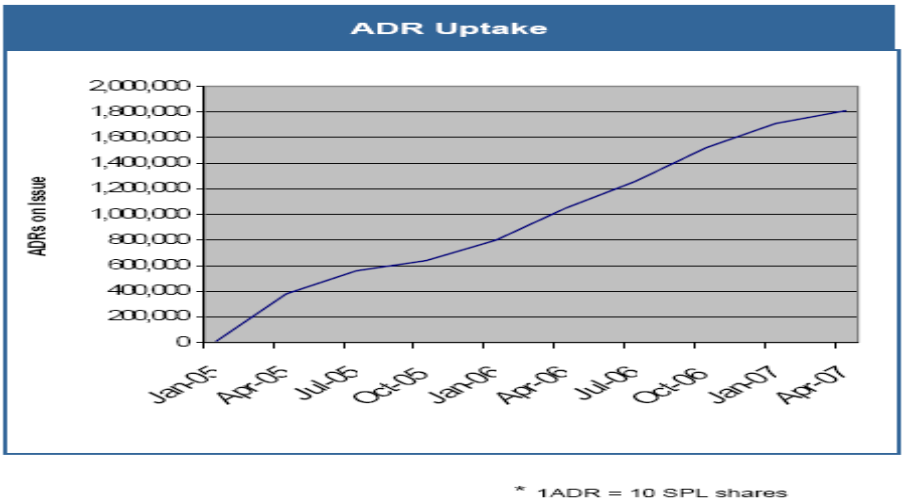



*Figure 2*. Number of SPHRY on issue since the launch of ADR program (Source: Starpharma's April 16, corporate presentation).

The 52-Week price and volume behavior for Starpharma's ADR (SPHRY) from May 29, 2006 to May 29, 2007 is exhibited in the Figure 3.

*Figure 3*. SPHRY 52-Week price and volume (source: Bigcharts).

During the one-year period, SPHRY was trading (closing prices) in the $2.35 to $4.75 range. The average daily volume was about 5,760 shares. For the most recent 90 days the stock was trading in the range $3.05 to $4.35 with an average daily volume of around 5,000 shares. With about 1.8 million Starpharma's ADRs on issue as of April 16, 2007 the one-year average daily volume represents about 0.32% of the company's outstanding ADRs and the recent 90 days average daily volume represents about 0.28% of the company's outstanding ADRs. This increase in relative average daily volume and rapid growth of ADRs on issue are two good indications of the growth in SPHRY market liquidity.

Analysis of daily prices of SPHRY April 25, 2006 to April 25, 2007 indicates a daily price return volatility of 6.29%% with average daily price rate of return of 0.11%. For the same period of time, the risk-return profile for Russell Microcap Index shows a daily return volatility of 1.00% with average daily rate of return of 0.03%.

Figure 4 shows daily price change (%) of SPHRY versus daily changes (%) of Russell microcap Index values throughout the study period.

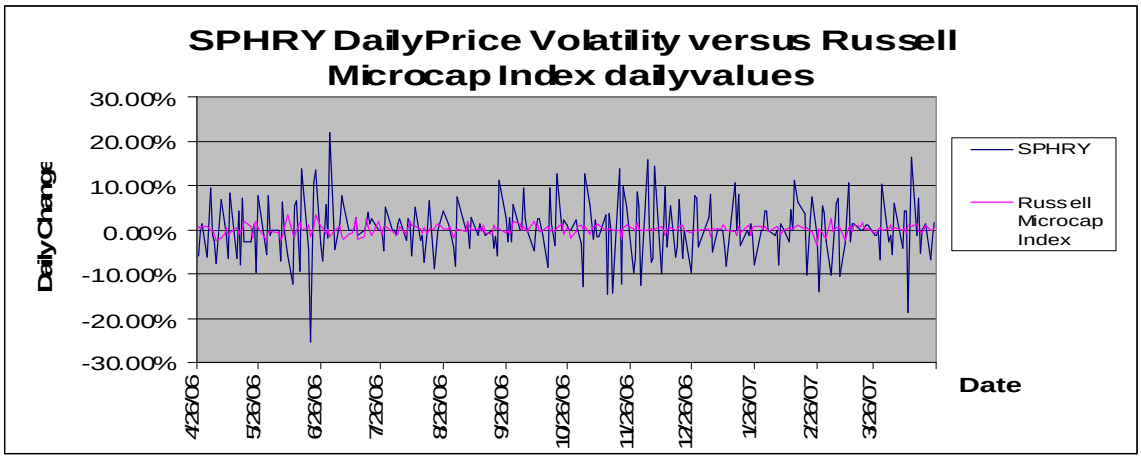



*Figure 4*. Daily price volatility of SPHRY versus daily volatility of Russell Microcap Index values

## CONCLUSIONS

Starpharma Holdings Limited is an emerging company operating in an emerging industry. Starpharma's business strategy is to use dendrimer-based nanotechnology to discover, develop and commercialize pharmaceuticals for serious human diseases. VivaGel™ is Starpharma's lead dendrimer product. It is a gel-based microbicide with a nanotech active being developed to prevent sexually transmitted infections in women.

With the increasing global awareness of the HIV/AIDS problem and the accelerating endeavors at the international, governmental, civil social groups, and even individuals' levels to prevent and treat this devastating epidemic as quick as possible, Starpharma's VivaGel stands at the forefront of the global HIV/AIDS prevention strategies.

Starpharma is pursuing promising leads in fields such as cancer, ophthalmology, and targeted diagnostics. Its investee companies, including DNT, also provide additional avenues of commercialization; such as, in drug delivery, transfection reagents, and contrast agents.

Starpharma acquired 100% of DNT on October 23, 2006.We agree with Starpharma's management that acquisition of DNT results in valuable synergies including more U.S. presence, extensive IP portfolio, road to commercialization, and a more diversified product base.

Starpharma has a healthy balance sheet. They have a strong cash position which can support their operating and R&D expenses should there be a shortfall in revenues. Starpharma has almost a debt free balance sheet with substantial equity which provides the company with the opportunity of external financing should the need arises.

However, investment in Starpharma's stock demands high level of risk tolerance. Commercialization of VivaGel™ depends on the results of clinical trials on humans and its approval by regulatory authorities, in particular approval by the U.S. FDA. It is possible that large pharmaceutical companies come out with products similar to VivaGel™ or with other products in Starpharma's pipeline with competitive advantage. Moreover, the growing concern over safety, health, and environmental issues of nanotechnology might delay commercialization of some of Starpharma's and DNT's dendrimers products.

# APPENDICES

Recent Events
Management
Disclaimer

## RECENT DEVELOPMENTS

**May 7, 2007: Starpharma's DNT Priostar(TM) Dendrimers Significantly Improve Properties of Marketed Fluorescent Reagents**
According to the announcement through its US subsidiary company Dendritic Nanotechnologies Inc (DNT), Starpharma has found that DNT's Priostar(TM) dendrimer technology can be used to amplify the signal and increase the duration of the signal (photostability) of existing products in the multi-billion dollar fluorescent reagents market. Starpharma has filed a patent for the discovery through DNT.

**March 26, 2007: Starpharma Joins International OTCQX**
According to the company's March 26, 2007 news release Starpharma will upgrade its Level 1 American Depository Receipts (ADR) program to International OTCQX, a new premium market tier in the U.S. for international exchange-listed companies, operated by Pink Sheets, LLC.

The news release further states that the upgrading of Starpharma's Level 1 ADRs to International OTCQX has a number of advantages as well as providing another tier on our way to Level 2 ADRs.

**March, 6, 2007: Starpharma Information Added to S&P Corporation Records Listing Program**
On March 6, 2007 Starpharma announced that Starpharma Information Added to S&P Corporation Records Listing Program.

The company information about Starpharma Holdings to be made available includes an in-depth description of Starpharma's business operations, share price, dividend history, shares outstanding, company financial position, earnings, and a full income statement and balance sheet.

**February, 19, 2007: DNT and EMD Biosciences Agreement**
On February 13, 2007 Starpharma announced that through its US subsidiary company Dendritic Nanotechnologies Inc (DNT) has entered into a worldwide exclusive license and supply agreement with EMD Biosciences, part of Merck KGaA's Performance and Life Science Chemicals division.

Under the terms of this agreement, DNT will supply EMD Biosciences with Priofect™ transfection reagents based on Priostar™ proprietary dendrimers for the DNA and siRNA transfection research markets.

Under this commercial arrangement DNT retains full rights to all *in vivo* aspects of transfecting nucleic acids with Priostar technology, a market segment that experienced significant deal-making activity 2006.

**February, 13, 2007: NIH Funds Further Clinical Development of VivaGel™**
On February 13, 2007 Starpharma signed an agreement with the National Institute of Allergy and Infectious Diseases (NIAID) and the National Institute of Child Health and Human Development (NICHD) of the US National Institutes of Health (NIH), to provide funding of a further clinical trial of VivaGel™ in sexually active women.

This support is in addition to the previously announced US$20.3 million (A$26m) funding provided by the NIH to support the development of VivaGel™ for the prevention of HIV, and the funding of the clinical study related to VivaGel™ for the prevention of genital herpes.

The trial will be conducted by The Microbicide Trials Network (MTN), a worldwide collaborative clinical trials network established by Division of AIDS (DAIDS) of the NIAID to evaluate the safety and efficacy of microbicides. The trial will be sponsored by NIAID and NICHD, and co-sponsored by Starpharma.

The study will be conducted at two sites in the United States: University of South Florida, Tampa, Florida and University of Puerto Rico, San Juan, Puerto Rico. The study is expected to commence in the second quarter of 2007.

## MANAGEMENT

**Jackie Fairley, *BSc, BVSc (Hons), MBA***
**Chief Executive Officer**
Dr. Fairley has over 15 years' experience in the pharmaceutical and biotechnology industries working in business development and senior management roles with companies including CSL and Faulding (now Mayne Pharma). Prior to joining Starpharma as COO in 2005, she was CEO of Cerylid Biosciences Limited. During her time as CEO of Cerylid, the company generated revenues of over $20 million, raised more than $10 million private equity funding and completed the acquisition and integration of a private kinase company. Prior to joining the biotechnology sector, Dr Fairley spent 5 years as a Vice President for Faulding's injectable division where she was responsible for the group's global business development activities and injectable development program supporting product sales of > $200 million into 70 countries. She is a member of the Federal Government's Pharmaceutical Industry Working Group, and the Victorian Innovation Economy Advisory Board.

**Paul Barrett, *BSc (Hons), PhD***
**Vice President, Business Development**
Dr. Barrett has 6 years' experience in marketing and business development gained in both start-up and multinational technology companies in the UK. He has also ran a competitive intelligence unit providing strategic and tactical direction in sales planning. As a research scientist he has worked in academia and industry, including at the Department of Biochemistry, University of Oxford, where he published in the areas of cell-cycle kinase function, drug design, and structural bioinformatics. He has publications in photonics and in classical lens design and is the co-inventor on a patent for a communications device.

**Dr. David Owen**
**Vice President, Research**
Dr. David Owen has extensive experience in medicinal chemistry, biochemistry and managing teams focused on commercially directed drug discovery. He has held several positions in the biotech industry starting out with Mimotopes (part of Mitokor Inc.) as a senior chemist, he worked on projects for several major pharmaceutical companies. He then joined Cerylid as Head of Chemistry, and following that took on the same position at Glykoz, where he headed up a team of chemists working on a new class of antibacterial agents. David has expertise in a wide range of areas of chemistry including the synthesis of natural products, peptides, carbohydrates and heterocyclic compounds and has worked across a range of therapeutic areas including type 2 diabetes, antimicrobials and anticancer agents.

David has a First Class honors in Chemistry from the University of Queensland and has a PhD from the Australian National University. Following his PhD he went on to work with a number of internationally recognized academic research groups taking on post doctoral fellowships at the University of Utah, USA, a prestigious Alexander von Humboldt Fellowship at the University of Karlsruhe, Germany and an ARC postdoctoral fellowship at the Victorian College of Pharmacy, Monash University working with Professor Mark Von Izstein. David is a co-author on 20 publications and 5 patents.

**Jeremy Paull, *BSc (Hons), PhD***
**Vice President, Development and Regulatory Affairs**
Dr. Paull is responsible for managing Starpharma's regulatory and clinical affairs. Jeremy received a PhD in Pharmacology from Monash University, in 2000 for work on the functional and structural cardiovascular effects of various antihypertensive drugs. Prior to joining Starpharma, he worked with the Australian biotechnology company, Norwood Abbey, on the development of a medical device which was approved to alter skin properties and improve transdermal drug delivery. Since joining Starpharma in 2001, Dr. Paull's efforts have been integral to the implementation of the company's quality management system (QMS), the preparation and submission of Starpharma's first Investigational New Drug (IND) application to the US Food & Drug Administration (FDA), and the advancement of the clinical aspects of the VivaGel™ development program. He has overseen expansion of the QMS and now directs the company's regulatory and clinical strategy.

**Ben Rogers**
**Company Secretary**
Mr. Rogers has extensive experience in finance and human resources management with the CSIRO research laboratories in Victoria, South Australia, and Western Australia. He also operated his own consulting business providing services to Co-operative Research Centers and CSIRO Divisions. Mr. Rogers joined Starpharma on commencement of operations in April 1997 and was appointed to the position of Company Secretary in February 1998. He is a member of the senior executive team with responsibilities that include the role of Chief Financial Officer.

**Nigel Baade, *BCom, CPA, Grad Dip Arts (Development)***
**Financial Controller**
Mr. Baade is a CPA qualified accountant with experience in the pharmaceutical and biotechnology industries. His previous roles have included Finance Manager of Cerylid Biosciences and Manager Accounting, International Business Development for Faulding (now Mayne Pharma). Mr Baade has extensive experience in financial control, project and cost management of research activities, commercialization of global business development opportunities, private equity raising and grant funding. Prior to joining Starpharma in January 2006, he held a commercial planning role with Dutch multinational, Hagemeyer. He has a Postgraduate Diploma in International Development from Monash University.

## COMPANY CONTACT INFORMATION

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## ANALYST CERTIFICATION

I, Mohammad Sharifzadeh, PhD, CFA, is the Research Analyst responsible for the preparation of this Research Report hereby certify that:

(1) the views and opinions expressed in this Research Report reflect accurately the Research Analyst's personal views concerning any and all securities and issuers that are discussed herein and are the subject matter of this Research Report
(2) the compensation payable to the Research Analyst, is not, has not, and will not, directly or indirectly, be related to the specific views and opinions expressed by the Research Analyst in this Research Report.
(3) I have no ownership in, nor any affiliations with the company in this research report.

Mohammad Sharifzadeh,PhD, CFA, is a member of CFA Institute.

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## RESEARCH METHOD

In arriving at an investment rating, we use the following analytical measures:

1) Potentials and opportunities: competitive advantage, market potentials, patents, properties, reserves.

2) Risk factors: regulatory approvals, R&D results, ability to raise capital, going concern issues, competition.

3) Evaluation of the stocks fair value given the company's potentials and risks.

## RESEARCH PROCEDURES, STANDARDS & ETHICS

1) Analysts are independent contractors and not employed by Cronus Capital Markets, Inc.

2) Analysts are pre-qualified, primarily by their level of expertise, as established by the CFA Institute or a similar overseas program, or by several years of experience providing analytics for recognized Wall/Bay Street institutions.

3) The analyst is responsible for providing research under stated procedures and is not responsible to the company in any way.

4) Analysts are paid in advance of their initial reports to avoid any pecuniary interest in the outcome.

5) Regardless of the outcome of the report, if it is professionally produced, and the analyst engages in timely communication with their covered companies, the analyst remains on the queue for future assignments.

6) Definitions of ratings are available to the public and to the analysts. No rating is to be issued that is labeled a recommendation. No analyst may recommend the purchase or the sale of any equity.

7) Analysts are asked to professionally arrive at an expected fair value of the company six, 12, 18 months out, and then to divide that by the number of shares calculated or reasonably expected to be outstanding on that future date. That number, no matter what it is, is the target valuation.
(NOT ALL REPORTS HAVE TARGET VALUATION)

8) Reports must be publicly-accessible, at no charge, and a link provided to the public for any summaries or announcements published and distributed via any means. (see: www.ccmopportunitybase.com)

9) Full disclosures regarding compensation must accompany every communication.

10) Once the analyst has completed his or her report, and he or she affirms that the report is his or her sole work product, it is sent to the company with any and all ratings and target valuations extracted for errors and omissions review, then subsequently released for publication and distribution.

## RESEARCH RATING SYSTEM

| | |
|---|---|
| **STRONG BUY** | **(5)** |
| **BUY** | **(4)** |
| **SPECULATIVE BUY** | **(3)** |
| **HOLD** | **(2)** |
| **SELL** | **(1)** |
| **AVOID** | **(1)** |
| **SUSPENDED** | **(0)** |

**STRONG BUY (5)**
Company's stock price appears to be substantially undervalued relative to its future growth potential.

**BUY (4)**
Shares appear to be undervalued in light of several factors.

***SPECULATIVE BUY (3)**
Shares appear to offer potential gains though risk is considerably higher. Such a company may have "going concern" problems, or company's future prospects may hinge on critical assumptions, such as (but not limited to) the company's ability to compete effectively in the marketplace, achieve most or all of its stated business goals, maintain sufficient financial liquidity and resources (from daily cash flow to capital for expansion) and the avoidance of legal or other pitfalls.

**HOLD (2)**
Shares appear to be fairly valued and while there is no incentive to add such shares, there are similarly no current known compelling factors that would warrant selling absent a subsequent trading drop in value.

**SELL (1)**
At present, shares appear to be overvalued.

**AVOID (1)**
At present, shares appear to be significantly overvalued

**SUSPENDED (0)**
Company has been suspended due to inability or unwillingness to provide continued access to the company by the assigned analyst, a violation of AIMR's proposed Issuer Standards.

***What does "speculative" mean in a rating?**
Companies with meager or no historical data or that are at the development stage, are generally considered highly SPECULATIVE. Such companies may even have "going concern" problems and an analyst recommendation should be considered only as a part of a total investigative process by anyone considering purchase. A speculative buy opinion generally refers to future valuations only if the company is able to achieve most or all of its business goals and avoid most or all of the possible risks, including raising sufficient capital and effectively competing in its marketplace.

## TYPES OF RESEARCH COVERAGE

**Comprehensive Research Report:** Should be of 40 or more pages**.** Should include industry analysis, financial forecasting, valuation analysis, rating, and price target. Use the template provided

**Basic Research Report**: Should be 20 or more pages, does not include financial forecasting and price target. There is no separate section for industry analysis or valuation. However, the analyst should refer to major industry parameters in the competitive landscape section. Basic research should include rating. Use the template provided

**Update Reports**: Update reports are quarterly after the company files its financial statements with the relevant authorities. An update report will be about 12 pages containing an overview of the company, recent developments in the company, and an analysis of recent financial statements.

**Research Note**: A research note is one or two pages and is written when some significant developments take place that could have major effects on the company's performance. Some significant developments could be:

- Change in the company's business strategy
- Approval or denial of a major license or patent
- Earnings pre-announcement
- Addition or termination of a major contract
- New regulations that can have significant impacts on the industry