Starpharma Holdings Limited

ABN 20 078 532 180

Appendix 4E: Preliminary Financial Report
Year ended 30 June 2012

Lodged with the ASX under Listing Rule 4.3A
Previous corresponding period: Year ended 30 June 2011

Results for announcement to the market

				$'000
Revenue from continuing operations *(Appendix 4E item 2.1)*	Up	29%	to	**$2,744**
Loss from continuing operations after tax attributable to members *(Appendix 4E item 2.2)*	Up *(increase)*	53%	to	**$13,658**
Loss for the period attributable to members *(Appendix 4E item 2.3)*	Up *(increase)*	53%	To	**$13,658**

Dividends *(Appendix 4E items 2.4 and 2.5)*
No dividends have been paid or declared by the entity since the beginning of the current reporting period. No dividends were paid for the previous corresponding period. No record date for determining entitlements to dividends has been declared.

Explanation of Revenue *(Appendix 4E item 2.6)*
The increase in revenue was due to the increase in interest revenue earned on cash deposits. Total revenue and other income for the year was $2,904,000, a reduction of $399,000 from the previous year, on lower grant income from the US National Institutes of Health.

For further details, refer to the Annual Report which follows this announcement.

Explanation of Loss *(Appendix 4E item 2.6)*
The reported net loss after tax of $13,658,000 is consistent with the company's strategic plans and forecasts. The increase in expenditure includes the phase 2 VivaGel® clinical trial for the prevention of recurrence of bacterial vaginosis and the two pivotal phase 3 VivaGel® clinical trials for the treatment of bacterial vaginosis. Expenditure has also increased in Starpharma's internal development programs for drug delivery and agrochemicals.

For further details, refer to the Annual Report which follows this announcement.

Financial Statements *(Appendix 4E items 3, 4, 5 and 6)*
Refer to the Annual Report which follows this announcement.

Retained Earnings / Accumulated Losses *(Appendix 4E item 6)*
Refer to note 16 in the Annual Report which follows this announcement.

NTA Backing *(Appendix 4E item 9)*
Net tangible asset backing per ordinary share at 30 June 2012 is $0.14 (2011: $0.07).

Other Significant Information *(Appendix 4E item 12)*
Refer to the Annual Report which follows this announcement.

Commentary on Results *(Appendix 4E item 14)*
Refer to the Annual Report which follows this announcement, including the CEO's Report, Review of Operations and Financial Summary.

Audit *(Appendix 4E item 15 to 17)*
The audit of the financial statements and notes has been completed and the Auditors' Report to members is contained in the Annual Report which follows this announcement.

Appendix 4E items 7, 8, 10, 11, and 13 are not applicable

ASX ANNOUNCEMENT

Starpharma annual report and full year financial results

Melbourne, Australia; 27 August 2012: Starpharma Holdings Ltd (ASX:SPL;OTCQX: SPHRY) today released its annual report and financial results for the year ended 30 June 2012.

Financial Results

- Cash burn (cash outflows before new capital) for the year $9.9M
- Cash position at end of year $42.8M
- A$35 million placement and share purchase plan
- Reported loss $13.7M

Operational Highlights

- Full enrolment of the first of Starpharma's two Phase 3 studies for VivaGel® as a treatment for BV; second Phase 3 trial nearing full recruitment.
- FDA and European (EMA) agreement on BV treatment Phase 3 design including Special Protocol Assessment (SPA) by FDA.
- Full recruitment for the Phase 2 clinical trial to investigate the ability of VivaGel® to prevent the recurrence of BV.
- Starpharma's dendrimers improve efficacy of docetaxel in breast cancer model.
- Expansion of the development program with partner Lilly.
- Priostar® dendrimers result in significant improvement in performance of glyphosate (Roundup®).
- VivaGel®-coated condom agreement signed with Ansell.
- Starpharma elevated to S&P/ASX300 index.
- Signing of an agreement with Nufarm, one of the world's leading crop protection companies.

Commenting on the results, Starpharma CEO Dr. Jackie Fairley said: "The 2012 financial year has been an exciting period of progress across all of our programs. The VivaGel® trials, both for prevention of recurrence of BV and the treatment of BV, have enrolled exceptionally quickly and our two pivotal Phase 3 trials now stand at 100% recruited and more than 90% recruited respectively."

"The capital raising in November 2011 which brought major new international investors onto the register has also allowed Starpharma to accelerate and expand our internal agrochemical and drug delivery programs. This investment is already yielding exciting developments such as the excellent efficacy result seen with our improved docetaxel formulation reported earlier this year" Dr Fairley added.

Net cash outflows from operating and investing activities for the year were $9.9 million (2011: $6.6 million), with cash reserves at 30 June 2012 of $42.8 million (2011: $18.9

million). Net cash inflows from financing activities of $33.7 million resulted from net proceeds of shares issued during the period (2011: $3.5 million).

The net loss after tax of $13.7 million (2011: $8.9 million) was consistent with the company's forecasts and strategic plans. Total revenue and other income for the year was $2.9 million (2011: $3.3 million) with a reduction in grant funding of $1.0 million from the previous year, offset by an increase in interest revenue on the higher cash balance.

The increase in expenditure this year is driven primarily by the acceleration of Starpharma's Phase 2 and two concurrent Phase 3 clinical trials for VivaGel® in bacterial vaginosis (BV), and the internal development programs for drug delivery and agrochemicals. Starpharma's internal drug delivery program, which has a focus on improvement of the blockbuster cancer drug docetaxel (Taxotere®), is also advancing rapidly with plans underway for clinical trials in 2013. The agrochemical program includes the application of Starpharma's dendrimers to enhancing the performance of important leading agrochemical agents such as Glyphosate (Roundup®).

ABOUT STARPHARMA

Starpharma Holdings Limited (ASX:SPL, OTCQX:SPHRY), located in Melbourne Australia, is an ASX 300 company and is a world leader in the development of dendrimer products for pharmaceutical, life science and other applications. Starpharma's underlying technology is built around dendrimers – a type of synthetic nanoscale polymer that is highly regular in size and structure and well suited to pharmaceutical uses. Starpharma has three core development programs: VivaGel® portfolio, drug delivery, and agrochemicals with the Company developing a number of products internally and others via commercial partnerships.

Starpharma's lead product is VivaGel® (SPL7013 Gel), a gel-based formulation of a proprietary dendrimer. VivaGel® is under clinical development for the treatment and prevention of bacterial vaginosis (BV) and also as a vaginal microbicide to prevent the transmission of sexually transmitted infections including HIV and genital herpes. Starpharma has also signed separate licence agreements with Ansell Limited (ASX:ANN) and Okamoto Industries Inc (Tokyo Stock Exchange) to market a value-added, VivaGel®-coated condom. Ansell manufactures and sells leading condom brands worldwide, including Lifestyles®, ZERO® and SKYN®. Okamoto is the market leader for condoms sold in Japan, the world's second largest condom market.

In the wider pharmaceutical and life science fields, Starpharma has both partnered and internal programs in Drug Delivery. Most recently Starpharma announced pre-clinical results in its Docetaxel (Taxotere®) program demonstrating significant improvements in that agent's anticancer efficacy and the enhancement of solubility offering potential safety benefits as well. The company is also exploring dendrimer opportunities in agrochemicals in a series of industry partnerships with leading industry players including Nufarm (ASX:NUF) as well as with internal programs including an enhanced version of glyphosate (the active ingredient in Roundup®).

FOR FURTHER INFORMATION

Media:
Buchan Consulting
Rebecca Wilson
Mob: +61 417 382 391
rwilson@buchanwe.com.au

Haley Price
Mob: +61 423 139 163
hprice@buchanwe.com.au

Starpharma:
Dr Jackie Fairley, Chief Executive Officer
+61 3 8532 2704

Ben Rogers, Company Secretary
ben.rogers@starpharma.com

www.starpharma.com

Forward Looking Statements

This document contains certain forward-looking statements, relating to Starpharma's business, which can be identified by the use of forward-looking terminology such as "promising", "plans", "anticipated", "will", "project", "believe", "forecast", "expected", "estimated", "targeting", "aiming", "set to", "potential", "seeking to", "goal", "could provide", "intends", "is being developed", "could be", "on track", or similar expressions, or by express or implied discussions regarding potential filings or marketing approvals, or potential future sales of product candidates. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. There can be no assurance that any existing or future regulatory filings will satisfy the FDA's and other health authorities' requirements regarding any one or more product candidates nor can there be any assurance that such product candidates will be approved by any health authorities for sale in any market or that they will reach any particular level of sales. In particular, management's expectations regarding the approval and commercialization of the product candidates could be affected by, among other things, unexpected clinical trial results, including additional analysis of existing clinical data, and new clinical data; unexpected regulatory actions or delays, or government regulation generally; our ability to obtain or maintain patent or other proprietary intellectual property protection; competition in general; government, industry, and general public pricing pressures; and additional factors that involve significant risks and uncertainties about our products, product candidates, financial results and business prospects. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. Starpharma is providing this information as of the date of this document and does not assume any obligation to update any forward-looking statements contained in this document as a result of new information, future events or developments or otherwise.

ANNUAL REPORT
2012

Highlights
2011–2012

Developing dendrimer products for pharmaceutical, life science and other applications.

VIVAGEL®

FDA grants Special Protocol Assessment for VivaGel® BV phase 3

Binding declaration from FDA received approving Starpharma phase 3 VivaGel® trials design for treatment of bacterial vaginosis (BV).

Pivotal phase 3 BV treatment trials commenced and recruitment nearing completion

Two concurrent international phase 3 VivaGel® trials on track for completion by end 2012.

European (EMA) agreement on BV phase 3 trials secured

Second largest market in the world delivers regulatory clarity on VivaGel® trials.

Phase 2 BV prevention of recurrence trial fully recruited

VivaGel® trial launched and fully recruited in the US under an Investigational New Drug Application. There are no existing treatments targeting the recurrence of BV.

Executes condom coating agreement with Ansell

Starpharma executed a licence agreement with Ansell Limited (ASX:ANN) giving Ansell marketing rights to the VivaGel®–coated condom in markets excluding Japan and certain Asian markets.

DRUG DELIVERY

Drug delivery program shows improved efficacy

Dendrimer-docetaxel program advancing rapidly with clinical trial expected to commence in 2013 following strong preclinical data.

Lilly drug delivery program expands

Expansion of the development program with partner Lilly.

AGROCHEMICAL PROGRAM

Crop Protection Agreement Signed with Nufarm

Agreement signed to develop innovative crop protection formulations for Nufarm's product portfolio using Starpharma's Priostar® dendrimer technology.

CORPORATE

Elevation to S&P/ASX 300 Index

Starpharma joins top 300 Australian listed companies in recognition of its significant growth and market support.

A$35 million placement and Share Purchase Plan

Successful financing priced at no discount to market.

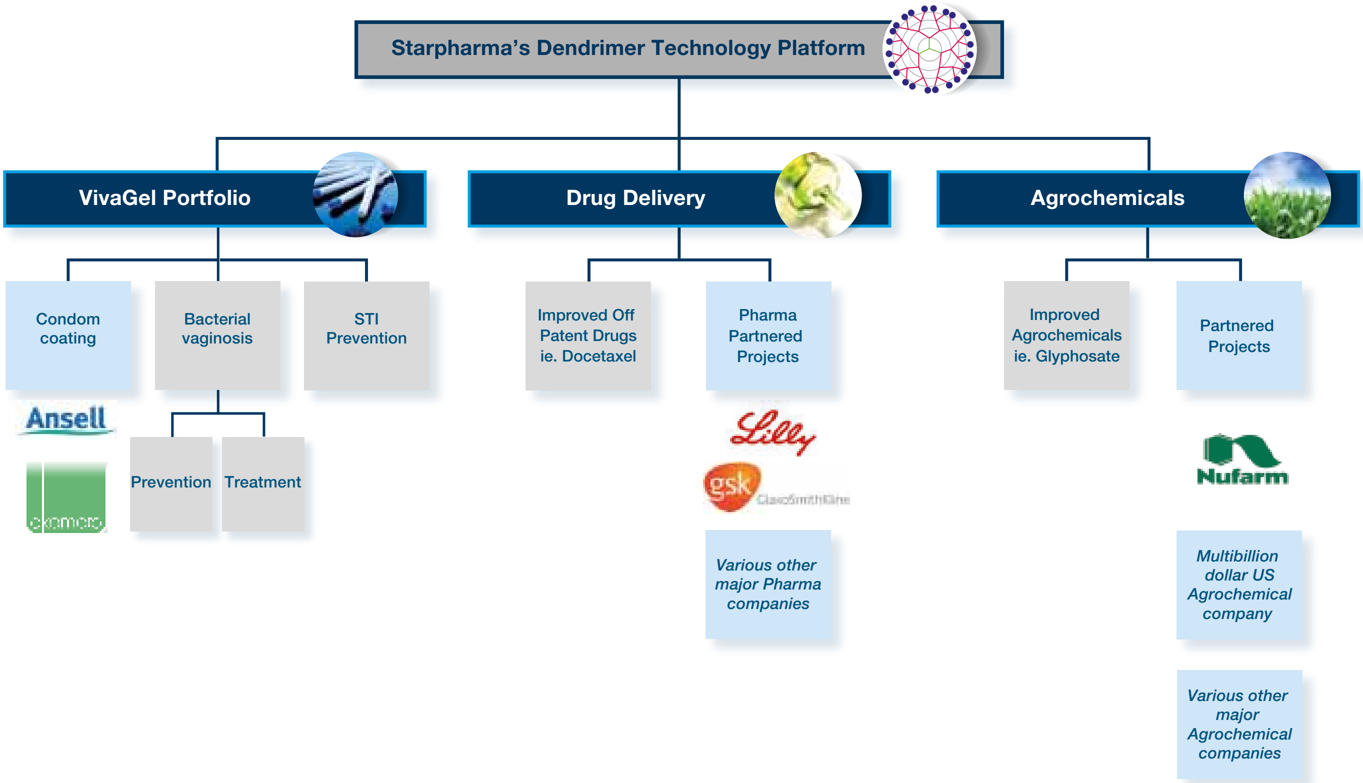
New appointments to Starpharma Board

Board appointment of industry experts Peter Turvey and Zita Peach as non-executive directors.

starpharma

Starpharma's Technology Platform

Starpharma's platform technology has applicability across multiple products and industries.



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Chairman's Letter

Dear Shareholders,

On behalf of the board and management of Starpharma I am pleased to present the 2011-2012 annual report for your review.

This has been a further year of advancement for Starpharma. Significant clinical progress for our most advanced pharmaceutical product VivaGel® was complemented by major steps forward in our other development programs both internally and with our partnered programs. A successful major capital raise of A$35 million in November 2011 via a $32m Placement and $3 million SPP provided the capacity to advance all our core programs with a particular focus on the bacterial vaginosis application of VivaGel® and the internal drug delivery and agrochemical programs.

Starpharma's strong, geographically diverse shareholder register, significant cash reserves and deep and maturing portfolio has allowed the company to ride the waves of market volatility, but it has not escaped the effect of market forces entirely. We remain philosophical about short-term fluctuations and continue to focus on the consistent and rapid progress made across all of our programs.

We were pleased to welcome M&G Investments as a shareholder with the fund taking a 6.7% position in Starpharma during the capital raise in November 2011, a position which has now increased to close to 10% of Starpharma. M&G is Prudential's UK and European fund management business with assets of more than A$300 billion under management as of 31 March 2012. A number of other significant global funds have also joined our register throughout the year. Attracting investors of this stature adds further credibility to Starpharma and is evidence that the concerted efforts of our CEO, Dr Jackie Fairley, and her management team are elevating the company's profile in international markets.

On the development front, the hard work of our clinical team sees enrolment of our Phase 3 trials for bacterial vaginosis rapidly nearing completion, and continued engagement with the FDA resulting in agreement on the endpoints of these trials which provides much confidence to our investors and partners.

The agrochemical and crop protection program continues to produce impressive data in the improvement of major products, and the drug delivery program has yielded results demonstrating Starpharma's ability to improve the delivery of major cancer drugs and hormones among others. Particularly pleasing was the extension of our collaboration with Lilly and also the first data in a breast cancer model which clearly demonstrated the improvement in efficacy of anti-cancer drug docetaxel using dendrimer enhancement.

In the last year we welcomed two new Directors, Zita Peach and Peter Turvey, to the Starpharma board. Ms Peach brings more than 20 years of commercial experience in the pharmaceutical sector including in such industry luminaries as Merck Sharp & Dohme and CSL, where she served as Vice President, Business Development. Among various roles in his nearly 20 years at former employer CSL, Mr Turvey was an Executive Vice President and was closely involved in building CSL into a major international company. Both Ms Peach and Mr Turvey bring invaluable commercial experience and international networks to our board.

In closing, I am grateful to my fellow Directors for their wise council and advice, and on behalf of the board I offer our thanks and appreciation to CEO Jackie Fairley, the management team and all the Starpharma staff.

An extraordinary amount of hard work and determination drives the progression of our multiple programs, and year-on-year we are seeing the increasing returns from that hard work. Importantly, Starpharma has emerged as a leader in the Australian biotechnology sector and is among a small group of companies with a maturing pipeline and products close to or on market. This progress is helping to drive interest and confidence with investors.

Finally, thank you to our shareholders. We are grateful for your ongoing support, and look forward to sharing Starpharma's successes with you in the year ahead.

Yours sincerely,

Peter T Bartels, *AO*
Starpharma Chairman

CEO's Report

I am pleased to provide my report on the year's activities and our plans for the future. It has been a year focused on achieving the best outcomes from our clinical trial program to put Starpharma in a strong position as we enter the commercialisation phase for many of our products. Our VivaGel® trials for both preventing the recurrence of bacterial vaginosis (BV) and treating BV have enrolled exceptionally quickly and we look forward to their completion and the release of findings.

Our agrochemical and drug delivery programs have both progressed considerably during the year, aided by our successful capital placement in November 2011 which significantly boosted the company's cash position. This capital raise, and the follow on Share Purchase Plan, were conducted at no discount to the market and gave us the resources to accelerate the programs for all three pillars of our business: VivaGel®, drug delivery and agrochemicals. In particular our VivaGel® clinical program is funded through to registration and we look forward to signing a commercial partnership following successful trial completion.

The VivaGel® Portfolio

The commercial prospects for VivaGel® across all its possible indications have strengthened considerably throughout the year. In the near-term, VivaGel® for the treatment of BV has the potential to positively impact on the quality-of-life for many millions of women. Current treatments centre on antibiotics, which have an array of potential side effects and inconvenient precautionary measures accompanying their use. VivaGel®'s differentiation from standard antibiotic treatments and its potential as a treatment for BV recurrence means it represents a major advance for women's health.

BV is the most common vaginal infection globally, and the most common cause of vaginal irritation, discharge and malodour. It is particularly prevalent in the US, where it affects an estimated one-third of the adult female population. Several leading international publications including Marrazzo, *et al* (2011) indicate as many as 50-60% of women suffering from BV will have recurrent episodes of the condition.

Existing treatments for BV are considered suboptimal with relatively low cure rates, high rates of recurrence, unpleasant side-effects, and high levels of bacterial resistance.

The market for topical treatments for BV is approximately US$300–$350 million. There are currently no existing treatments for the prevention of recurrence of BV and estimates for this market are in excess of US$1 billion.

VivaGel® for BV Treatment	
Effective against the bacteria which cause BV	✓
Not absorbed into the bloodstream	✓
Lacks common antibiotic side-effects	✓
Can be used whilst drinking alcohol	✓
Compatible with condoms	✓
Designed to have minimal effect on 'good' bacteria	✓
Can be used long term	✓

VivaGel® Approaches Final Stages of Development

The past 12 months have seen rapid progress in the late-stage clinical development of VivaGel®. In March 2012 Starpharma commenced two concurrent pivotal phase 3 trials for the treatment of BV. In June 2012 Starpharma advised that enrolment for its clinical studies had proceeded rapidly, with one of the trials reaching 100% enrolment and the other surpassing 70% enrolment. The design of these trials is virtually identical to Starpharma's successful phase 2 BV treatment trial, which demonstrated that VivaGel® was efficacious in the treatment of BV with a very high level of statistical significance.

Approximately 30 international sites, primarily in the US, are involved in the two trials, each of which will involve approximately 220 participants. Trial results are anticipated before the end of 2012.

Starpharma is also advancing a second area of investigation for VivaGel® in BV examining VivaGel®'s effectiveness as a preventative for BV. Enrolment for its phase 2 trial was completed in June 2012. This trial, which commenced in August 2011, recruited 205 patients with a prior history of recurrent BV. The primary objective of the study is to determine the efficacy of VivaGel® compared with a placebo gel in preventing BV recurrence.

Successful completion of the phase 3 trials will mark the completion of the clinical requirements for VivaGel® for the treatment of BV. After results are compiled, Starpharma plans to prepare and submit a New Drug Application (NDA) to the US Food and Drug Administration (FDA), as well as accelerate discussions with potential partners for the marketing rights to VivaGel® for the management of BV.

VivaGel® represents an important milestone not only for Starpharma, but also for the Australian biotechnology industry as it is one of the very few examples where a new chemical entity has been discovered by Australian scientists and independently developed by an Australian company through to the completion of pivotal phase 3 trials.

In January 2012 Starpharma received agreement from the FDA on the design of its phase 3 clinical studies of VivaGel® for the treatment of bacterial vaginosis under the FDA's Special Protocol Assessment (SPA) Scheme.

The SPA is a binding declaration from the FDA that the phase 3 clinical study design, endpoints, statistical analyses and other aspects of the planned studies are acceptable to support regulatory approval of the product.

This declaration gives the Company confidence that prioritising the development of VivaGel® as a treatment for BV provides the most streamlined route to market, meeting a significant medical need.

The phase 3 clinical trial program for VivaGel® has also been agreed with the European Medicines Agency (EMA). Starpharma presented to the EMA the proposed design of phase 3 studies and associated aspects of the development program to support a European Marketing Authorisation Application (MAA) for VivaGel® for the treatment of BV.

The significance of the EMA feedback is that Starpharma has now confirmed for both major global markets – Europe and the US – that its Phase 3 program is acceptable, and positive results would support approval of the product.

Starpharma is also continuing activities to support the commercial launch of VivaGel®. This has included scale-up of the VivaGel® active ingredient, SPL7013, to the tens of kilograms scale. This is being done under full Good Manufacturing Practices (cGMP) at an FDA and EU-certified manufacturer that supplies marketed pharmaceutical actives globally. Scale-up of the finished (VivaGel®) product to the hundreds of kilograms scale has also been achieved. Final process validation is also well advanced.

The VivaGel®-coated Condom and Other Applications

VivaGel® is also in phase 2 development as a topical microbicide for the prevention of sexually transmitted infections (STIs) such as genital herpes, human papillomavirus (HPV), and HIV. More than 50 million Americans are currently infected with genital herpes, including approximately 26% of the female population. This figure is expected to rise to 50% by 2025 at current rates of infection. Beyond herpes, consumer demand for a broad-spectrum topical treatment for STIs has been identified as being strong, with studies showing 30-40% of female college students in the US willing to buy a product of this type.

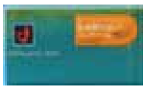
VivaGel® has also been licensed as a condom coating to market-leading condom companies, Ansell and Okamoto, giving access to the US$1.1 billion branded condom market for Starpharma and important product innovations for its partners.

Both Ansell and Okamoto hold strong market positions in the global condom marketplace and their successes have been strongly founded on a focus of innovation for sales growth.

Ansell is ranked number two globally in terms of condom sales, marketing leading brands including Lifestyles®, ZERO® and the highly successful SKYN® brand. It has a leading market position in the rapidly expanding Asia Pacific and South American markets and in Australia with around 70% market share.

Okamoto is Japan's leading marketer of condoms with approximately 60% share of the Japanese condom market - estimated to be in the order of US$500 million. In addition to its dominant position in the Japanese condom market, Okamoto also holds strong market positions in several other Asian markets.

VivaGel® Coated Condom Partnerships

Partner	Market Position	Major Brands
Okamoto Industries (listed on TSE)	• No.1 in Japan with ~60% Japanese market (the 2nd largest condom market, estimated at ~US$500M) • No. 4 globally with strong positions in Korea, Taiwan, Malaysia, Singapore and China • Total company revenue >US$ 760M	**Skinless®**  **003®** 
Ansell Limited (ASX: ANN)	• No. 2 globally for condom sales with ~20% global share of the branded market, ~$1.1B • No. 1 in Australia with strong growth in the USA, China, Brazil, India and Eastern Europe • Condom business growing ~18%	**Lifestyles®**  **SKYN®**  **ZERO®** 

Drug Delivery

In the past year Starpharma has made considerable progress in its drug delivery program, via both its internal and partnered programs. Starpharma researchers recently reviewed the chemistry of the top 200 top-selling pharmaceuticals worldwide and found that more than 50% would be amenable to dendrimer conjugation.

Significant value in Starpharma's dendrimer technology is derived from both its versatility and its ability to deliver a number of important and valuable benefits for pharmaceuticals. These are outlined in the table below.

Feature	Potential Benefits for Patients and/or Manufacturers
Improved Drug Efficacy	✓ More effective treatments or lower doses
Reduced Toxicity of Actives	✓ Reduced side-effects
Improved Drug Solubilisation	✓ Less toxic formulations (allowing removal of toxic excipients) ✓ Less painful injection formulations
Improved Pharmacokinetics	✓ Less frequent dosing and less severe side effects
Targeted Drug Delivery	✓ More effective treatments with reduced side effects

Docetaxel Program

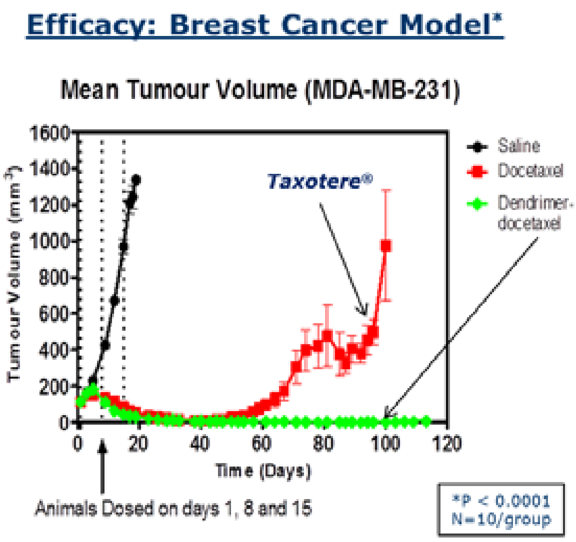
The delivery of efficacy data as described below was a major achievement for the company docetaxel anticancer program in the last year, and Starpharma's research team is now focussed on completing the data package prior to clinical studies planned for calendar year 2013.

Docetaxel is a leading chemotherapy drug used to treat a wide range of solid tumours including breast, lung and prostate. It is marketed by Sanofi Aventis as Taxotere® and generated sales in excess of US$3 billion in 2010. Sanofi's patents relating to Taxotere® have lapsed in many markets, enabling the development of this improved dendrimer-docetaxel product by Starpharma. This improved formulation is the subject of new patents pending coverage to 2032.

These advances in the docetaxel program were announced in February 2012. These studies demonstrated significant improvements in the efficacy of the dendrimer formulation over the blockbuster cancer drug docetaxel (Taxotere®), in a breast cancer model.

The study showed that 60% of the animals treated with Starpharma's dendrimer-docetaxel formulation had no evidence of tumour 94 days after treatment, whereas all animals treated with Taxotere® only had significant tumour regrowth at the same time point.

A further additional benefit demonstrated by Starpharma's dendrimer-docetaxel formulation is that its plasma half life (i.e. how long it lasts in the blood) is 60 times longer than for the docetaxel/Taxotere® drug alone (30 hours compared to 30 minutes).



Partnered Programs

Starpharma's docetaxel program continues to run in parallel with its partnered drug-delivery programs which include a growing list of major pharmaceutical companies including GSK and Eli Lilly and Company (Lilly).

In December 2011 Starpharma announced the expansion of the development program with partner Lilly. Starpharma now has a number of projects underway with Lilly to improve the delivery of small molecule and protein based pharmaceuticals using Starpharma's dendrimer technology. The development program will include further *in vivo* studies followed by clinical testing, as well as potential commercial terms should a product ultimately be brought to market.

Starpharma is also applying its technology to a growing list of other drug candidates, including major oncology drugs.

Other Applications

A further new program is the area of antibodies. There are a number of antibodies which have been shown to be effective in targeting tumours, to some extent limiting their growth. The efficacy of these antibodies can be enhanced by the addition of existing small molecule cytotoxic (cell-killing) drugs. As part of Starpharma's drug delivery program the company is developing ways in which a dendrimer can be used to improve targeted delivery.

Given the huge growth area of antibodies as a treatment class, a demonstrated ability of dendrimers to enhance antibody efficacy would be a major asset for Starpharma. This program will continue in parallel to its major docetaxel program.

Agrochemicals and Crop Protection

Starpharma's work in the improvement of chemicals used in agriculture, like pesticides and herbicides, is progressing into new areas. Starpharma and Nufarm signed an agreement in August 2012 to develop innovative crop protection formulations for Nufarm's product portfolio using Starpharma's Priostar® dendrimer technology. Nufarm is one of the world's leading crop protection companies with group sales for FY2011 exceeding $2 billion. Nufarm produces products to help farmers protect their crops against damage caused by weeds, pests and disease.

In addition to Nufarm, this program already has projects in partnership with major international industry players. This agreement marks the latest development in a rapidly developing agrochemical program.

The lead candidate in Starpharma's internal agrochemical program is an enhanced reformulation of the best-selling herbicide glyphosate (Roundup®), which has annual sales in excess of US$5 billion. In the same way that docetaxel's off-patent status marks it as a high-value target for improvement, glyphosate represents the largest opportunity for an enhanced formulation in the US$40 billion agrochemical market. The company has already reported results of significant enhancement of effect of glyphosate in studies using its proprietary Priostar® technology and continues further development in this area.

In addition, Starpharma is now applying its dendrimer technology to a number of other off-patent agrochemical agents with the potential for reduction or removal of environmentally damaging solvents.

Some crop protection products contain up to 70% hydrocarbon solvents. Typically growers and regulators prefer formulations without these solvents, which are toxic to handle, highly flammable and expensive to transport and leave a residue when sprayed on crops. A reduction in these solvents would be welcome from social, environmental and economic perspectives, and regulators are increasingly working with agrochemical companies to address these issues.

The potential benefits of dendrimer-reformulated agrochemicals include:

- Solubility enhancement for more concentrated formulations, reducing transport costs and solvent residues;
- Improved herbicidal activity;
- Modification of soil penetration properties; and
- Increased adhesion reducing losses due to rain run-off and the need for multiple applications.

Starpharma's agrochemical and crop protection program has the potential to add further value to the agrochemical industry's largest products making this an exciting area within Starpharma's core development program.

Other applications

The optionality of Starpharma's dendrimer platform technology has allowed partnerships with a diverse range of companies in very different product areas. These areas include diagnostics and laboratory reagents, animal health and cosmetics.

5 Year Financial Summary

Year Ended 30 June

	2012 $M	2011 $M	2010 $M	2009 $M	2008 $M
Royalty, customer and licence revenue	**0.9**	1.1	1.4	2.0	1.4
Grant income	**0.2**	1.2	3.8	7.7	8.2
Interest revenue	**1.8**	1.0	0.7	0.1	0.3
Total revenue & income	**2.9**	3.3	5.9	9.8	9.9
Expenditure	**(16.6)**	(12.2)	(12.3)	(14.1)	(18.1)
Income tax credit	**-**	-	-	0.2	0.7
Net loss after tax	**(13.7)**	(8.9)	(6.4)	(4.1)	(7.5)
Cash outflow before new capital (Cash Burn)	**(9.9)**	(7.5)	(3.9)	(2.9)	(6.1)
Cash Burn adjusted for exchange rate movements	**(10.0)**	(6.7)	(3.8)	(4.2)	(5.5)
New share capital net proceeds	**33.7**	3.6	15.1	7.0	3.5
Cash at end of year	**42.8**	18.9	22.8	11.6	7.5

Overview of financial results

For the period ended 30 June 2012, the key metric of net cash burn for the year was $9.9 million, with cash reserves at 30 June 2012 of $42.8 million. Starpharma reported a net loss after tax of $13.7 million and had net cash outflows of $9.8 million from operations. Cash flow from financing activities of $33.7 million included the proceeds of the equity raise and the exercise of options during the year.

The reported net loss after tax of $13,658,000 is consistent with the company's strategic plans and budget estimates. The increase in expenditure includes the phase 2 VivaGel® clinical trial for the prevention of recurrence of bacterial vaginosis and the two pivotal phase 3 VivaGel® clinical trials for the treatment of bacterial vaginosis. Expenditure has also increased with additional Starpharma internal development programs for drug delivery and agrochemicals, including docetaxel and glyphosate.

Total revenue and other income for the year was $2,904,000, a reduction of $399,000 from the previous year, on lower grant income from the US National Institutes of Health. The decrease in grant funding is partly offset by interest revenue earned on cash deposits.

A contra research and development expense of $1,323,000 has been recorded for research and development activities eligible under the Australian Government tax incentive from 1 July 2011.

Outlook

Starpharma has delivered major tangible advances across several areas in the last year. Reaching agreement with regulators and executing phase 3 trials is extremely resource-intensive and our swift recruitment and positive interactions with the major regulatory agencies of the FDA and EMA have been achievements in themselves. The end of calendar 2012 should see our current phase 2 and concurrent phase 3 trials for VivaGel® completed, and the next stage of engagement with regulatory agencies underway. We expect to be in a position to achieve the very significant milestone of submitting a New Drug Application in 2013. We look forward to sharing the results of these various trials.

Our other major programs in drug delivery and agrochemicals are also progressing well, with significant scientific results announced from our internal docetaxel program in 2012. Clinical trials are planned for this program in 2013. The analysis that 50% of the world's 200 best-selling pharmaceutical products could potentially be enhanced by dendrimers is testament to the huge versatility of the Starpharma technology platform which underpins all our work and we will continue to expand our extensive partnered programs. These already include many of the top 10 global pharmaceutical companies.

We are confident Starpharma's strong platform technology and business fundamentals will continue to deliver shareholder value in the coming year.

Jackie Fairley

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 and receive periodic assessments and feedback on performance. Policies provide for ongoing training and career development, and are intended to ensure a balanced work and home life. Starpharma's Code of Conduct reflects the core values of the company and sets out standards of behaviour in matters including equal employment opportunity and best practice in recruitment.

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

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

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

The Community

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

All of Starpharma's pharmaceutical products and 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 medical research organisations and key governmental and non-governmental departments and institutions. These relationships offer critical analysis of research concepts from world experts in their field and provide the pathway for products to enter the market and change daily lives.

The Environment

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

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

Directors' Report

Your directors have pleasure in presenting this report on the consolidated entity (referred to hereafter as the group) consisting of Starpharma Holdings Limited and the entities it controlled at the end of, or during, the year ended 30 June 2012.

Directors

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

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

Z Peach and P R Turvey were appointed as directors on 1 October 2011 and 19 March 2012 respectively and continue in office at the date of this report.

Principal Activities

The principal activities of the group consist of development and commercialisation of dendrimer products for pharmaceutical, life-science and other applications. Activities within the group are directed towards the development of precisely defined nano-scale materials, with a particular focus on the development of its topical vaginal microbicide VivaGel® for the treatment and prevention of bacterial vaginosis, as a condom coating, and prevention of genital herpes and HIV, and the application of dendrimers to drug delivery and other life science applications. More broadly, through partners the group is exploring dendrimer opportunities in materials science with applications in areas such as cosmetics, agrochemicals, and coatings. 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 2012. (2011: Nil)

Review of Operations

Achievements and significant events during the 2012 financial year included:

July 2011 Advances agrochemical program with improved performance of major product

Starpharma's studies have demonstrated a number of improvements in these preliminary studies including the ability to increase the effectiveness of agrochemicals such as glyphosate, the most commonly used herbicide globally (also known by the trade name Roundup®) with annual sales in excess of US$5 billion.

August 2011 Commences BV Prevention Study of VivaGel®

The phase 2 study of VivaGel® for the prevention of bacterial vaginosis (BV) commenced following receipt of ethics approval.

The primary objective of the study is to determine the efficacy of two strengths of VivaGel® (1% and 3%) compared with a placebo gel in preventing recurrence of BV. Whilst the duration of use of the product in this study is 16 weeks, it is intended that women would use the product as a long-term prevention tool if proven effective.

August 2011 Starpharma terminates condom coating agreement with Reckitt Benckiser

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

August 2011 Starpharma executes condom coating agreement with Ansell

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

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

September 2011 Starpharma elevated to S&P/ASX300 index

The S&P/ASX 300 Index provides additional depth and coverage to the S&P/ASX 200. It provides up to an additional 100 small-cap stocks to the S&P/ASX 200, and is designed to address investment managers' needs to benchmark against a portfolio characterized by sufficient size and liquidity.

October 2011 Secures FDA agreement on BV treatment Phase 3

The Phase 3 clinical trial program for the VivaGel® bacterial vaginosis (BV) treatment program was agreed with the US Food and Drug Administration (FDA) following recent positive trial results and subsequent End of Phase 2 (EOP2) Meeting.

Following EOP2 meeting discussions, Starpharma and the FDA are in agreement on Phase 3 clinical trial design, including definition of primary and secondary endpoints, patient numbers and other design parameters.

November 2011 Starpharma completes A$32 million placement

Starpharma successfully raised A$32 million via a placement to international and domestic institutional, sophisticated and professional investors.

The placement was conducted at the last closing price prior to Trading Halt (A$1.075 per share), and was significantly oversubscribed. There was strong participation in the placement from existing institutions including large global funds and local investors. A major new international institution became a significant shareholder via the placement.

November 2011 Secures European (EMA) agreement on BV treatment Phase 3

The Phase 3 clinical trial program for VivaGel® bacterial vaginosis (BV) treatment was agreed with the European Medicines Agency (EMA).

This European scientific advice is in addition to the agreement recently reached with the US FDA announced in October 2011.

December 2011 SPP closes heavily oversubscribed

The Share Purchase Plan (SPP) capped at $3 million was oversubscribed by more than 400%. As a result of the strong demand and oversubscription, applications needed to be scaled back.

The SPP followed the placement in November to international and domestic institutional, sophisticated and professional investors which raised A$32 million.

December 2011 Drug delivery program with Lilly advances

In December 2011 Starpharma announced the expansion of the development program with partner Lilly. Starpharma now has a number of projects underway with Lilly to improve the delivery of small molecule and protein based pharmaceuticals using Starpharma's dendrimer technology. The development program will include further in vivo studies followed by clinical testing, as well as potential commercial terms should a product ultimately be brought to market.

January 2012 Receives FDA Special Protocol Assessment for BV Phase 3

Starpharma received final written agreement from the FDA on the design of its Phase 3 clinical studies of VivaGel® for the treatment of bacterial vaginosis (BV) under the FDA's Special Protocol Assessment (SPA) scheme.

The SPA is a binding declaration from the FDA that the Phase 3 clinical study design, endpoints, statistical analyses, and other aspects of the planned studies are acceptable to support regulatory approval of the product.

February 2012 Starpharma's dendrimers improve efficacy of docetaxel in animals

Animal data demonstrated that applying Starpharma's dendrimer technology to the leading chemotherapy drug docetaxel was significantly more efficacious than docetaxel (Taxotere®) in a breast cancer model.

March 2012 Commences pivotal phase 3 VivaGel® trials for bacterial vaginosis treatment

The commencement of two concurrent pivotal phase 3 clinical trials of VivaGel® for the treatment of bacterial vaginosis (BV), following receipt of ethics approval.

June 2012 Full enrolment achieved for BV Phase 2 trial and first Phase 3 trial

Reported that recruitment is 100% completed for its Phase 2 clinical trial to investigate the ability of VivaGel® to prevent the recurrence of bacterial vaginosis (BV), and also for the first of two pivotal Phase 3 studies of VivaGel® for the treatment of BV.

Financial Summary

For the year ended 30 June 2012 the consolidated entity incurred an operating loss after income tax of $13,658,000 (June 2011: $8,930,000).

Income statement	Year Ended 30 June 2012 $'000	2011 $'000
Revenue from continuing operations	**2,744**	2,125
Other income	**160**	1,178
Research and development expenses	**(12,088)**	(5,986)
Administration expenses	**(4,466)**	(6,231)
Finance costs	**(8)**	(16)
Loss attributable to members	**(13,658)**	(8,930)

Income statement
The reported net loss after tax of $13,658,000 is consistent with the company's strategic plans and budget estimates. The increase in expenditure includes the phase 2 VivaGel® clinical trial for the prevention of recurrence of bacterial vaginosis and the two pivotal phase 3 VivaGel® clinical trials for the treatment of bacterial vaginosis. Expenditure has also increased in Starpharma's internal development programs for drug delivery and agrochemicals.

Total revenue and other income for the year was $2,904,000, a reduction of $399,000 from the previous year, on lower grant income from the US National Institutes of Health. The decrease in grant funding is partly offset by higher interest revenue earned on cash deposits.

All research and development expenditure, including patenting costs, were fully expensed in the current and prior year.

A contra research and development expense of $1,323,000 has been recorded for research and development activities eligible under the Australian Government tax incentive from 1 July 2011.

Balance sheet
At 30 June 2012 the group's cash position was $42,812,000 (2011: $18,918,000) resulting from the $35 million capital raised during the year.

Statement of cash flows
Net operating cash outflows for the year were $9,770,000 (2011: $6,476,000). Cash flow from financing activities of $33,665,000 (2011: $3,508,000) included the proceeds on the raise of equity.

Earnings per share

	2012	2011
Basic loss per share	**($0.05)**	($0.04)
Diluted loss per share	**($0.05)**	($0.04)

Net tangible assets

	2012	2011
Net tangible asset backing per ordinary share	**$0.14**	$0.07

Significant changes in the state of affairs

There was an increase in contributed equity of $33,772,000 (2011: $3,633,000) the majority of which were proceeds of the equity raise which occurred during the year.

Matters subsequent to the end of the financial year

No matters or circumstances have arisen since 30 June 2012 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 2012 financial year or since the end of the year affecting the business activities of the group, and the directors are not aware of any such changes in the near future.

Environmental regulation

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

Legal

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

Health and Safety

The board, CEO and senior management team of the group are committed to providing and maintaining a safe and healthy working environment for the company's employees and anyone entering its premises or with connection to the company's business operations. Employees are encouraged to actively participate in the management of environmental and Occupational Health and Safety (OH&S) issues. The company has adopted an OH&S Policy and has an established OH&S Committee structure as part of its overall approach to workplace safety. The OH&S committee provides a forum for management and employees to consult on health and safety matters. The primary role of the committee is to coordinate the development and implementation of OH&S policy and procedures, to consider any work related safety matters or incidents, and to ensure compliance with relevant legislation and guidelines. The committee includes representatives of management, and employees from each operational area generally in proportion to the number of people working in the area and the perceived safety risks associated with working in that area. The OH&S committee meets on a monthly basis.

Information on Directors

Peter T Bartels, *AO*, FAISM, FRS (age 71)

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

232,930 ordinary shares in Starpharma Holdings Limited

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

Other current directorships of listed entities: None

Former directorships of listed entities in last 3 years: None

Jacinth (Jackie) K Fairley BSc, BVSc (Hons), MBA (age 49)

Executive director
Chief Executive Officer

1,649,197 ordinary shares in Starpharma Holdings Limited
375,000 employee performance rights

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 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 60)

Independent Non-executive director
Chairman of audit & risk committee until 14 May 2012
Chairman of remuneration & nomination committee until 14 May 2012

Nil ordinary shares in Starpharma Holdings Limited

Non-executive director for fifteen 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: Executive Chairman of Acrux Ltd since 1 July 2012, previously non-executive director (director since 2000; Chairman since 31 January 2006)

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

Richard A Hazleton BSChE, MSChE, HonDrEngr, HonDrCommSci (age 70)

Independent Non-executive director
Member of remuneration & nomination committee until 14 May 2012
Member of audit & risk committee from 14 May 2012

142,616 ordinary shares in Starpharma Holdings Limited

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

Other current directorships of listed entities: None

Former directorships of listed entities in last 3 years: None

Peter J Jenkins MB, BS (Melb), FRACP (age 66)

Independent Non-executive director
Deputy Chairman
Chairman of remuneration & nomination committee from 14 May 2012
Member of audit & risk committee until 14 May 2012

1,487,462 ordinary shares in Starpharma Holdings Limited

Independent non-executive director for fifteen 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.

Zita Peach BSc (age 48)

Independent Non-executive director from 1 October 2011
Member of remuneration & nomination committee from 14 May 2012

2,000 ordinary shares in Starpharma Holdings Limited

Ms Peach has more than 20 years of commercial experience in the pharmaceutical industry, particularly in marketing and business development, working for major industry players such as CSL Limited and Merck Sharp & Dohme (MSD), the Australian subsidiary of Merck Inc. She is currently the Managing Director and Executive Vice President, South Asia Pacific for Fresenius Kabi Australia, a leader in infusion therapy and clinical nutrition. Until recently Ms Peach was Vice President/Director, Business Development R&D for CSL, a position she held for ten years. Ms Peach is a Non-Executive Director of the ASX-listed Vision Eye Institute Limited.

Other current directorships of listed entities: Vision Eye Institute Limited

Former directorships of listed entities in last 3 years: None

Peter R Turvey BA/LLB, MAICD (age 61)

Independent Non-executive director from 19 March 2012
Chairman of audit & risk committee from 14 May 2012

30,000 ordinary shares in Starpharma Holdings Limited

Mr Turvey is the former Executive Vice President Licensing and Company Secretary of global specialty biopharmaceutical company CSL Limited having retired in 2011. He is currently a Principal of Foursight Associates Pty Ltd and a director of the industry organisation AusBiotech Limited. After completing an Arts/Law degree at the Australian National University, he joined Biotechnology Australia, then Australia's largest biotechnology company, as Manager of Intellectual Property and Company Secretary. He joined CSL in 1992 as its first in-house Corporate Counsel and was appointed Company Secretary in 1998. He played a key role in the transformation of CSL from a government owned enterprise, through ASX listing in 1994, to a global plasma and biopharmaceutical company. He also had responsibility for the protection and licensing of CSL's intellectual property and for risk management within CSL, which included management of the internal audit function, reporting to the Audit & Risk Management Committee of the Board as well as being the Chairman of the Corporate Risk Management Committee. Among the many licensing deals he was involved with, the most significant included the Gardasil license to Merck & Co., the licensing of the Iscomatrix® adjuvant platform technology to the world's leading vaccine manufacturers, and establishment of the *P.gingivalis* vaccine technology collaboration between the CRC for Oral Health and Sanofi-Pasteur.

Other current directorships of listed entities: Allied Healthcare Group

Former directorships of listed entities in last 3 years: None

Company Secretary

The Company Secretary is Mr Ben Rogers (age 64). 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.

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 2012, and the numbers of meetings attended by each director were:

	Full meetings of directors	Meetings of committees	
Name		**Audit & risk**	**Remuneration & nomination**
P T Bartels	9 of 9	2 of 2	3 of 4
P J Jenkins	9 of 9	2 of 2	1 of 1
J K Fairley	9 of 9	N/A	N/A
R Dobinson	9 of 9	2 of 2	3 of 3
R A Hazleton	8 of 9	0 of 0	3 of 3
Z Peach	6 of 6	N/A	1 of 1
P R Turvey	2 of 2	0 of 0	N/A

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.

Remuneration Report

The Remuneration report sets out remuneration information for non-executive directors, executive directors and other key management personnel of Starpharma Holdings Limited group of companies.

Directors and key management personnel disclosed in this report

Non-executive and executive directors – see pages 12 to 13 above

Other key management personnel	
N J Baade	Chief Financial Officer
C P Barrett	VP, Business Development
M L McColl	VP, Business Development
D J Owen	VP, Research
J R Paull	VP, Development and Regulatory Affairs
B P Rogers	Company Secretary

The key management personnel of the Starpharma Holdings Limited group include the five highest paid executives of the entity.

Role of the remuneration committee
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. 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.

Non-executive director remuneration policy

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. The Chairman's fees are determined independently from the fees of non-executive directors based on comparative roles in the external market.

Non-executive directors do not receive bonuses, share options or other forms of equity securities, or any performance-related remuneration or retirement allowances.

Directors' fees
Non-executive directors' fees are reviewed annually by the remuneration and nomination committee, taking into account comparable data from the biotechnology sector. Non-executive directors' fees were last increased with effect from 1 January 2010. Fees and payments are determined within an aggregate non-executive directors' fee pool limit, which is periodically recommended for approval by shareholders. The aggregate amount currently stands at $450,000 which was approved by shareholders on 15 November 2006. This amount (or some part of it) is to be divided among the non-executive directors as determined by the board. The aggregate amount paid to non-executive directors for the year ended 30 June 2012 was $362,097 (2011: $357,833). Superannuation contributions required under the Australian superannuation guarantee legislation continue to be made and are deducted from the directors' overall fee entitlements.

Directors' Fees	**2012**
Chair	120,000
Other non-executive directors	60,000

Executive remuneration policy and framework

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

The executive pay and reward framework comprises of:
- base pay and benefits, including superannuation;
- short term performance incentives; and
- long term incentives through participation in the Starpharma employee equity plans.

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

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 research, development, regulatory and commercial milestones, and therefore performance goals are not necessarily linked to financial performance measures typical of companies operating in other market segments. Remuneration is set based on key performance indicators (KPIs) typical of a biotechnology company in Starpharma's lifecycle, which may include (but are not limited to) successful negotiations of commercial contracts, achieving key research, development and regulatory milestones, and ensuring the availability of adequate capital to achieve stated objectives. Improvement in the rating of the company against peer biotechnology companies may also be taken into consideration in determining the performance of the executive team, and can be assessed on a qualitative basis by reviewing external sources such as biotechnology publications and non-commissioned research reports.

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

Base pay and benefits
Executives receive their base pay and benefits structured as a Total Fixed Remuneration (TFR) package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

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

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

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

Starpharma Employee Performance Rights Plan
In 2010 the board approved the introduction of the Starpharma Employee Performance Rights Plan (ASX code SPLAK). The objective of the Plan is to assist in the recruitment, reward, retention and motivation of employees of the company. The Plan allows for the issue of performance rights (being rights to receive fully paid ordinary shares subject to continued employment with the company and the satisfaction of certain performance hurdles over a specified period). The key points of the Plan are:
- All executives and staff and certain contractors may be invited to apply for Rights under the scheme.
- One Right once vested is equivalent to one fully paid ordinary share.
- Rights and the resultant shares are granted for no consideration.
- Appropriate vesting conditions can be applied to each allocation. The standard vesting condition in the plan rules is continued employment for two years.
- At the end of the vesting period a further disposal restriction (Holding Lock) may be applied to restrict disposal of the resulting shares. The standard Holding Lock in the plan rules is one year after vesting.
- Rights will lapse on cessation of employment before the vesting date, except for good leaver and change of control provisions at the board's discretion.
- In the event of a change of control of the company the board has the discretion to determine whether Rights will vest and become exercisable. In making its decision, the board must consider:
  - (i) the portion of the Vesting Period elapsed; and
  - (ii) the extent to which the Performance Conditions (if any) have been met.
- In the event of cessation due to death, illness, permanent disability, redundancy or any other circumstance approved by the board unvested Rights will lapse, unless the board determines otherwise having regard to:
  - (i) the portion of the Vesting Period elapsed; and
  - (ii) the extent to which the Performance Conditions (if any) have been met.
- The Holding Lock on the resulting shares will be automatically removed on cessation of employment.

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

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

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

Trading in company securities
The trading of shares issued to participants under any of the company's employee equity plans is governed by the company's securities trading policy. Executives are prohibited from entering into any hedging arrangements over unvested securities. Further information regarding the company's securities trading policy is set out in Section 3.2 of the Corporate Governance Statement.

Use of remuneration consultants
If remuneration consultants are to be engaged to provide remuneration recommendations as defined in section 9B of the *Corporations Act 2001*, they are to be engaged by, and report directly to, the remuneration & nomination committee. No remuneration consultants have been engaged to provide such remuneration services during the financial year.

Voting and comments made at the company's 2011 Annual General Meeting (AGM)
Of the votes cast on the company's remuneration report for the 2011 financial year, 98% were in favour of the resolution. The company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

Performance of Starpharma Holdings Limited

The executive team of Starpharma achieved important milestones directly related to their key performance indicators in the year.

These included:

- Commencement and full recruitment of the phase 2 BV prevention of recurrence clinical study of VivaGel®,
- Securing FDA and European agreement on the clinical design protocols for the BV treatment phase 3 pivotal studies of VivaGel®;
- Receiving FDA Special Protocol Assessment for BV treatment phase 3 clinical studies;
- Commencement of the pivotal phase 3 VivaGel® clinical studies for BV treatment;
- Expanded commercial collaborative partnerships in drug delivery and agrochemicals;
- Raised $35 million in equity at no discount to market at the placement date; and
- Elevated to the S&P/ASX300 index on Starpharma's increasing share price and market capitalisation.

These key links between key management personnel performance and remuneration and Starpharma Holdings Limited's long term performance are evident in the appreciation in share price, with a compounded annual return over the past five years in excess of 30%.

Details of remuneration

The following tables show details of the remuneration received by the directors and the key management personnel of the group for the current and previous financial year.

2012	**Short-term benefits**			**Post-employment**	**Long-term benefits**	**Share-based payments**		
Name	Cash salary & fees $	Cash bonus# $	Non-monetary benefits $	Super-annuation $	Long service leave $	Shares# $	Performance Rights# $	**Total $**
Non-executive directors								
P T Bartels	120,000	–	–	–	–	–	–	**120,000**
R Dobinson	60,000	–	–	–	–	–	–	**60,000**
P J Jenkins	55,046	–	–	4,954	–	–	–	**60,000**
R A Hazleton	60,000	–	–	–	–	–	–	**60,000**
Z Peach[1]	41,284	–	–	3,716	–	–	–	**45,000**
P R Turvey[2]	–	–	–	17,097	–	–	–	**17,097**
Executive directors								
J K Fairley	341,454	150,000	40,720	18,764	15,732	–	128,540	**695,210**
Other Key Management Personnel (group)								
B P Rogers	89,496	10,399	5,108	49,712	6,772	1,000	23,008	**185,495**
J R Paull	176,847	30,000	11,640	24,995	8,462	1,000	28,760	**281,704**
C P Barrett	196,652	25,000	–	17,699	8,388	1,000	28,760	**277,499**
N J Baade	173,596	25,000	13,561	24,500	7,658	1,000	28,760	**274,075**
D J Owen	174,422	25,000	339	24,954	1,023	1,000	28,760	**255,498**
M L McColl	192,303	25,000	–	17,307	248	1,000	28,760	**264,618**
Totals	1,681,100	290,399	71,368	203,698	48,283	6,000	295,348	**2,596,196**

[1] Appointed 1 October 2011.

[2] Appointed 19 March 2012.

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

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

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

[1] Resigned 17 June 2011.

[2] Employed from 16 August 2010.

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.

Service Agreements

Remuneration and other terms of employment for the CEO and the 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 that the executive may receive 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 2012 of $395,500, to be reviewed annually by the remuneration and nomination committee.
– A cash bonus up to $150,000 for the year to 30 June 2012 allocated proportionately on the achievement of predetermined objectives. For the financial year commencing 1 July 2012 the maximum cash bonus is $200,000, subject to 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 2012 of $139,633 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 2012 of $213,632, 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 2012 of $219,068, 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 2012 of $212,110, 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 2012 of $204,712, to be reviewed annually by the remuneration and nomination committee.
– Subject to termination at any time by:
(i) the Executive giving to the company not less than three months written notice; or
(ii) the company giving to the Executive written notice, or payment in lieu of that notice, which notice period shall be three months.
– The Executive's employment may be terminated by the company at any time without notice for serious breach of obligations to the employer, wilful neglect of duty, serious misconduct or bankruptcy.

M L McColl VP – Business Development
– No fixed term of agreement.
– Base salary, inclusive of superannuation, per annum as at 30 June 2012 of $215,220, 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.

Share-based compensation

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

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

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

Options granted under the Plan carry no dividend or voting rights. The weighted average remaining contractual life of share options outstanding at the end of the year was 1.54 years (2011: 2.42 years).

Fair value of options granted

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

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

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

	Number of shares issued on exercise of options during the year		**Intrinsic value[1] $**	
Name	**2012**	2011	**2012**	2011
J K Fairley	**–**	350,000	**–**	74,775
B R Rogers	**–**	100,000	**–**	22,500
J R Paull	**–**	350,000	**–**	82,250
C P Barrett	**75,000**	175,000	**72,750**	60,125
N J Baade	**–**	300,000	**–**	128,000
D J Owen	**–**	200,000	**–**	60,500

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

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

Share allotment date on exercise of options	**Amount paid per share**
24 January 2012	$0.29

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

Share options granted to directors and key management personnel

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

	Number of options vested during the year		**Number of options expired during the year**	
Name	**2012**	2011	**2012**	2011
J K Fairley	**–**	–	**–**	300,000
B R Rogers	**–**	200,000	**–**	100,000
J R Paull	**–**	275,000	**–**	–
C P Barrett	**–**	275,000	**–**	200,000
N J Baade	**–**	225,000	**–**	–
D J Owen	**–**	225,000	**–**	–

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

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

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

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

	Number of shares granted during the year		Number of performance rights granted during the year	
Name	**2012**	2011	**2012**	2011
J K Fairley	**–**	–	**375,000**	–
B R Rogers	**851**	1,190	**32,000**	65,000
J R Paull	**851**	1,190	**40,000**	80,000
C P Barrett	**851**	1,190	**40,000**	80,000
N J Baade	**851**	1,190	**40,000**	80,000
D J Owen	**851**	1,190	**40,000**	80,000
M L McColl	**851**	1,190	**40,000**	80,000

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

	Number of shares issued on the vesting of performance rights during the year		Number of performance rights lapsed during the year	
Name	**2012**	2011	**2012**	2011
J K Fairley	**–**	487,500	**–**	262,500

No performance rights vested in the current year. The value at vesting date of performance rights that vested during 2011 was $407,062.

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

The terms and conditions of the grant of performance rights in the current year were as follows:

Grant date	Vesting Date	Holding Lock Expiry date	Number of Rights	Performance Measure	Value per right at grant date	% vested
10 November 2011	31 September 2012	31 September 2013	125,000	Share Price ≥ $1.50	$0.30	Nil
10 November 2011	31 September 2012	31 September 2013	125,000	Share Price ≥ $2.00	$0.12	Nil
10 November 2011	31 September 2012	31 September 2013	125,000	Achievement of KPIs	$0.96	Nil
25 November 2011	25 November 2013	25 November 2014	467,500	Achievement of KPIs	$1.09	Nil

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

Details of remuneration: cash bonuses, shares, performance rights and options
For each cash bonus and grant of equity included in the tables on pages 16 to 21, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and individual performance objectives is set out below. The options vest over the specified periods providing vesting criteria are met. No options or rights will vest if the conditions are not satisfied, hence the minimum value of the options and rights yet to vest is nil. The maximum value of the options and rights yet to vest has been determined as the amount of the grant date fair value of the options and rights that is yet to be expensed.

	Cash bonus				Performance rights				
	Paid	Forfeited	Grant date value of shares granted during 2012[2]	Grant date value of rights granted during 2012[2 3]	Year Granted	Vested	Forfeited	Financial years in which rights may vest	Remuneration consisting of shares, options & rights[4]
Name	%	%	$	$		%	%		%
J K Fairley	100%	–	–	172,500	2012	–	–	30/06/2013	18%
					2012	–	–	30/06/2014	
B P Rogers	–[1]	–	1,000	34,880	2011	–	–	30/06/2013	13%
					2012	–	–	30/06/2014	
J R Paull	–[1]	–	1,000	43,600	2011	–	–	30/06/2013	11%
					2012	–	–	30/06/2014	
C P Barrett	–[1]	–	1,000	43,600	2011	–	–	30/06/2013	11%
					2012	–	–	30/06/2014	
N J Baade	–[1]	–	1,000	43,600	2011	–	–	30/06/2013	11%
					2012	–	–	30/06/2014	
D J Owen	–[1]	–	1,000	43,600	2011	–	–	30/06/2013	12%
					2012	–	–	30/06/2014	
M L McColl	–[1]	–	1,000	43,600	2011	–	–	30/06/2013	11%

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

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

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

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

- End of remuneration report -

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
29 June 2009	28 June 2014	$0.37	794,000

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

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

Date options granted	Issue price of shares (Option exercise price)	Number of shares issued
21 August 2007	$0.43	1,684,809
31 October 2007	$0.50	30,000
1 January 2009	$0.29	415,000
29 June 2009	$0.37	320,000

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

Grant date	Vesting date	Holding Lock date	Number of rights granted	Balance of rights at date of report
2 September 2010	31 August 2012	31 August 2013	830,800	717,800
10 November 2011	30 September 2012	30 September 2013	375,000	375,000
25 November 2011	25 November 2013	25 November 2014	467,500	457,500

Rights and the resultant shares are granted for no consideration.

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

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

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

Audit & non audit services

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

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

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

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

Assurance Services	**2012 $**	2011 $
Audit or review of financial reports of the entity or any entity in the group under the *Corporations Act 2001*	**85,000**	113,000
Other assurance services – Grant reviews & program audits	**-**	18,000

No taxation or advisory services have been provided by the auditor 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 24.

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, 27 August 2012

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Auditor's Independence Declaration

As lead auditor for the audit of Starpharma Holdings Limited for the year ended 30 June 2012, 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
27 August 2012

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Corporate Governance Statement

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

Principle 1: Lay solid foundations for management and oversight

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.

The responsibilities of the board are described in the board charter, which is set out under Principle 2 below.

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.
A performance assessment for senior executives was last conducted in April 2012. The process for these assessments is described in the Remuneration Report under the heading "Performance Review and Development" on page 15 of this report.

Principle 2: Structure the board to add value

The board operates in accordance with the broad principles of the charter set out below.

2.1 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.

2.1.1 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.

2.1.2 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;

2.1.3 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; and
- reporting to shareholders.

2.2 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 six non-executive directors, all of whom are deemed independent under the principles set out below, and one executive director at the date of signing the directors' report. The board seeks to ensure that:
- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the group and directors with an external or fresh perspective; and
- the size of the board is conducive to effective discussion and efficient decision-making.

2.3 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; and
– 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 2001*.

Under these criteria the board has determined that all non-executive directors were independent at the date of this report.

2.4 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.

It is anticipated that non-executive directors would generally hold office for up to ten years, and shall serve a maximum of fifteen years from date of first election by shareholders. The board, on its initiative and on an exceptional basis, may exercise discretion to extend this maximum term where it considers that such an extension would benefit the company.

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

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

2.6 Commitment
The board held nine meetings during the year. Meetings are usually held at the company's corporate offices and laboratory facility in the Baker IDI Building, 75 Commercial Road, Melbourne, Australia. The number of meetings of the board and of each board committee held during the year ended 30 June 2012, 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.

2.7 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.

2.8 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.

2.9 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. Following this assessment the two board committees were reconstituted on 14 May 2012, with a new Chair and two new members for each committee.

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

2.10 Board committees
The board has established two 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.

2.11 Remuneration and nomination committee
The company has established a remuneration and nomination committee comprising of three independent non-executive directors. At the date of this report the committee consisted of the following:

Dr P J Jenkins (Chairman)
Mr P T Bartels
Ms Z Peach

Details of these directors' attendance at committee meetings are set out in the directors' report on page 13.

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; and
– 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. 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.

Principle 3: Promote ethical and responsible decision making

3.1 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.

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

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

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

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

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

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

3.3 Diversity policy
The company is committed to workplace diversity, and the board values the level of diversity already present within the organisation, believing that continuing to promote diversity is in the best interests of the company, its employees and its shareholders.

In June 2011 the board approved a Diversity Policy which operates alongside the Code of Conduct and Anti-Discrimination, Bullying and Harassment policies, providing a framework for Starpharma to achieve a number of diversity objectives. The Diversity Policy is available in the Corporate Governance section of the company's website.

In July 2011 the Starpharma board resolved to commence an orderly renewal process to ensure the company maintained a mix of directors on the board from different backgrounds with complementary skills and experience. In October 2011 Ms Zita Peach was appointed to the board as the first female non-executive director. With five male non-executive directors and CEO Dr Jackie Fairley also a director, total board membership included 28% female directors at the date of this report.

Independent of external corporate governance initiatives the company has embraced a culture of inclusion and equal opportunity across diversity areas recognised as potentially impacting upon equality in the workplace - gender, national origin, culture, language, sexual orientation, disability and age.

A recent survey indicated that 50% of Starpharma employees were born outside of Australia, representing 13 countries ranging from El Salvador to Eritrea, Switzerland to Sudan, and China to Romania. Almost two thirds of employees (64%) held a PhD or equivalent qualification.

Board and Management believe that a culture of diversity has helped the company to tap a deeper pool of talent and has enhanced the collective skillset, contributing to the strong performance of the business.

In accordance with the Diversity Policy the board has established measurable objectives for achieving gender diversity and has conducted an assessment of the objectives and progress in achieving them. An excellent gender balance already exists across the company and therefore the initial focus has been on the career development of women rather than on increasing representation of female employees.

Objectives set by the board for the 2011-2012 financial year, and progress against these objectives are set out below:

Objective: Continue to measure and track gender diversity, and continue to promote a corporate culture that embraces diversity within the company and more widely within the biotech sector.

Progress towards objective: The company's HR policies and processes have been reviewed to ensure they are inclusive in nature and consistent with the aims of the Diversity Policy.
A recent survey indicated more than half (57%) of current employees were female, a slight increase on the female population in July 2011 (53%). The table below sets out the proportion of female employees in the whole organisation, in senior executive positions and on the board, at July 2012.

	Whole organisation	Senior Executive positions	Board
Total	35	9	7
Female	20	3	2
% female	57%	33%	28%

Objective: Provide career development opportunities for women at middle and senior management levels; encouraging and providing opportunities for female networking and role models.

Progress towards objective: Five female middle managers (24% of total female employees) attended at least one management training course during the period July 2011 to June 2012. The company supported all female staff participating in an industry initiative "Connecting Women in Biotechnology" run by the BioMelbourne Network industry group, and including presentations by industry role models, during the 2011/2012 financial year.

Objective: Family friendliness –maintain initiatives to smooth transitions before, during and after parental leave, and to retain employees after they have taken parental leave.
Progress towards objective: Where possible, the company provides flexible working hours and part time arrangements, and staff are encouraged to approach management to discuss their particular needs before and after parental leave.

Principle 4: Safeguard integrity in financial reporting

4.1 Audit and risk committee
The company has established an audit and risk committee comprising three independent non-executive directors. At the date of this report the committee consisted of the following:

Mr P R Turvey (Chairman)
Mr PT Bartels
Mr R A Hazleton

Details of these directors' qualifications and attendance at committee meetings are set out in the directors' report pages 12 to 13. 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.

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

Principle 5 and 6: Make timely and balanced disclosures and respect the rights of shareholders

5.1. 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. The website also has an option for shareholders to register their email address for direct email updates on company matters.

All 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).

Principle 7: Recognise and manage risk

7.1. 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 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 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 through the audit and risk committee 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.

7.2. 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 2012:

– 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 in relation to financial reporting risks.

Principle 8: Remunerate fairly and responsibly

The company has established a remuneration and nomination committee comprising of three independent non-executive directors. Details regarding composition, meetings and charter are set out in section 2.11 of this Corporate Governance Statement.

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. Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the Remuneration Report on pages 14 to 21.

The company's policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under equity-based remuneration schemes is contained in the Securities Dealing Policy which is available in the Corporate Governance section of the company's website.

Annual Financial Report

Contents

These financial statements are the consolidated financial statements for the consolidated entity consisting of Starpharma Holdings Limited and its subsidiaries. The financial statements are presented in the Australian currency.

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

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

A description of the nature of the group's operations and its principal activities is included in the CEO's Report on pages 3 to 7 and in the review of operations in the directors' report on pages 9 to 10, which are not part of this financial report.

The financial statements were authorised for issue by the directors on 27 August 2012. The directors have the power to amend and reissue the financial report.

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

Consolidated income statement

For the year ended 30 June 2012

		Consolidated	
		2012	2011
	Notes	**$'000**	$'000
Revenue from continuing operations	5	**2,744**	2,125
Other income	5	**160**	1,178
Administration expense	6	**(4,466)**	(6,231)
Research and development expense	6	**(12,088)**	(5,986)
Finance costs		**(8)**	(16)
Loss before income tax		**(13,658)**	(8,930)
Income tax expense	7	**-**	-
Loss from continuing operations attributable to members of Starpharma Holdings Limited		**(13,658)**	(8,930)

Loss per share for loss from continuing operations attributable to the ordinary equity holders of the company		**$**	$
Basic loss per share	24	**($0.05)**	($0.04)
Diluted loss per share	24	**($0.05)**	($0.04)

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

Consolidated statement of comprehensive income

For the year ended 30 June 2012

		Consolidated	
		2012	2011
	Notes	**$'000**	$'000
Loss for the year		**(13,658)**	(8,930)
Other comprehensive income (loss)			
Foreign exchange differences on translation of foreign operations	15	**421**	(2,284)
Other comprehensive income (loss)		**421**	(2,284)
Total comprehensive income (loss) for the year attributable to members of Starpharma Holdings Limited		**(13,237)**	(11,214)

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

Consolidated balance sheet

As at 30 June 2012

		Consolidated	
		2012	2011
	Notes	**$'000**	$'000
Current Assets			
Cash and cash equivalents	8	**42,812**	18,918
Trade and other receivables	9	**2,053**	1,023
Total current assets		**44,865**	19,941
Non-current assets			
Property, plant and equipment	10	**414**	280
Intangible assets	11	**8,989**	9,586
Total non-current assets		**9,403**	9,866
Total assets		**54,268**	29,807
Current Liabilities			
Trade and other payables	12	**4,492**	1,227
Borrowings	13	**40**	49
Provisions (employee entitlements)		**506**	416
Deferred income		**397**	349
Total current liabilities		**5,435**	2,041
Non-current liabilities			
Borrowings	13	**100**	17
Provisions (employee entitlements)		**82**	56
Total non-current liabilities		**182**	73
Total liabilities		**5,617**	2,114
Net assets		**48,651**	27,693
Equity			
Contributed equity	14	**139,171**	105,399
Reserves	15	**1,866**	1,022
Accumulated losses	16	**(92,386)**	(78,728)
Total equity		**48,651**	27,693

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

Consolidated statement of changes in equity

For the year ended 30 June 2012

	Notes	Contributed capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
		Consolidated			
Balance at 1 July 2011		105,399	1,022	(78,728)	27,693
Loss for the year		-	-	(13,658)	(13,658)
Other comprehensive income					
Foreign exchange differences on translation of foreign operations	15	-	421	-	421
Total comprehensive income (loss) for the year		-	421	(13,658)	(13,237)
Transactions with owners, recorded directly in equity					
Contributions of equity, net of transaction costs	14	33,746	-	-	33,746
Employee share plans	14	26	-	-	26
Employee performance rights plan	15	-	423	-	423
Total transactions with owners		33,772	423	-	34,195
Balance at 30 June 2012		139,171	1,866	(92,386)	48,651

For the year ended 30 June 2011

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

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

Consolidated statement of cash flows

For the year ended 30 June 2012

		Consolidated	
		2012	2011
	Notes	**$'000**	$'000
Cash flow from operating activities			
Receipts from trade and other debtors (inclusive of GST)		**1,141**	1,391
Grant income (inclusive of GST)		**405**	829
Payments to suppliers and employees (inclusive of GST)		**(12,916)**	(9,793)
Interest received		**1,608**	1,113
Interest paid		**(8)**	(16)
Net cash outflows from operating activities	23	**(9,770)**	(6,476)
Cash flow from investing activities			
Payments for property, plant and equipment		**(133)**	(138)
Net cash outflows from investing activities		**(133)**	(138)
Cash flow from financing activities			
Proceeds from issue of shares		**35,167**	3,609
Share issue transaction costs		**(1,422)**	-
Lease repayments		**(80)**	(101)
Net cash inflows from financing activities		**33,665**	3,508
Net increase (decrease) in cash and cash equivalents held		**23,762**	(3,106)
Cash and cash equivalents at the beginning of the year		**18,918**	22,851
Effects of exchange rate changes on cash and cash equivalents		**132**	(827)
Cash and cash equivalents at the end of the year		**42,812**	18,918

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

Notes to the consolidated financial statements

30 June 2012

Contents

1. Summary of significant accounting policies

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards board and the *Corporations Act 2001*. Starpharma Holdings Limited is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

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

(ii) New and amended standards adopted by the group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and is not likely to affect future periods.

(iii) Early adoption of standards

The group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2011.

(iv) Historical cost convention

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

(v) Critical accounting estimates

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

For the year ended 30 June 2012, the consolidated entity has incurred losses of $13,658,000 (2011: $8,930,000) and experienced net cash outflows of $9,770,000 from operations (2011: $6,476,000), 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 2013. Accordingly the directors have prepared the financial report on a going concern basis in the belief that the consolidated entity will realise its assets and settle its liabilities and commitments in the normal course of business and for at least the amounts stated in the financial report.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Starpharma Holdings Limited ("company" or "parent entity") as at 30 June 2012 and the results of all subsidiaries for the year then ended. Starpharma Holdings Limited and its subsidiaries together are referred to in this financial report as the group or the consolidated entity.

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

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

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

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

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Group companies

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

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

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

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

(e) Revenue recognition

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

(f) Government Grants

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

(g) Income Tax

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

(h) Leases

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

(i) Impairment of assets

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

(j) Cash and cash equivalents

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

(k) Trade Receivables

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

(l) Investments and other financial assets

Classification

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

(i) Loans and receivables

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

(m) Property, Plant and Equipment

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

(n) Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the group between 1 to 3 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 3 to 14 years.

(iii) Research and development

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

(p) Trade and other payables

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

(q) Borrowings

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

(r) Provisions

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

(s) Employee benefits

(i) Wages and salaries and annual leave

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

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related services is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows. The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlements for at least twelve months after the reporting date, regardless of when the actual settlements is expected to occur.

(iii) Superannuation and Pension Benefits

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

(iv) Employee benefits on-costs

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

(v) Share-based payments

Share-based compensation benefits are offered to the directors and employees via the Starpharma Holdings Limited Employee Share Option Plan ("SPLAM"), an Employee Share Plan ($1,000 Plan), and an Employee Performance Rights Plan. Information relating to these plans is set out in note 25 and in 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 or binomial model (or variant of, as appropriate) that takes into account any exercise price, the term, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option or share right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term. The fair value excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options or share rights that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options or share rights that are expected to become exercisable. The employee benefit expense recognised in each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

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

(vi) Bonus payments

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

(vii) Termination benefits

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

(t) Contributed equity

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

(u) Dividends

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

(v) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

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

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

(x) Rounding of amounts

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

(y) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The group's assessment of the impact of these new standards and interpretations is set out below.

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

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

* In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to AASB 9 shortly.

(ii) AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a “partial disposal” concept.

The amendments are not expected to have any impact on the group’s financial statements.

(iii) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(z) Parent entity financial information

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

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

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

(ii) Share-based payments

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

2. Financial risk management

The group's activities expose it to a variety of financial risks; including market risk, credit risk and liquidity risk. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group. The chief executive officer, chief financial officer and company secretary, under the guidance of the audit and risk committee and 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	
	2012 US $'000	2011 US $'000
Cash and cash equivalents	**3,059**	3,492
Trade and other receivables	**10**	517
Trade and other payables	**3,969**	534
Deferred Income	**306**	297

Group Sensitivity

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

	Consolidated	
	2012 $'000	2011 $'000
Impact on profit / (loss) on a movement of the US Dollar:		
Australian dollar strengthens (increases) against the US Dollar by 10%	**(131)**	(269)
Australian dollar weakens (decreases) against the US Dollar by 10%	**108**	329

(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 90 to 212 days.

	Consolidated	
	2012 $'000	**2011 $'000**
Term Deposits and deposits at call	**41,357**	**16,819**

Group Sensitivity

At 30 June 2012, 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 $209,000 higher or lower (2011 - change of 50 bps: $269,000 higher/lower) due to either higher or lower interest income from cash or cash equivalents.

(b) Credit risk

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

(c) Liquidity risk

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

(d) Fair value estimation

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

3. Critical accounting estimates and judgments

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

(a) Critical accounting estimates and assumptions

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

i) Amortisation of finite life intangible assets
The group's management determines the estimated life of the patents underlying the core technology of the business and calculates amortisation accordingly. The estimate is based on the period of expected benefit which currently stands at 3–14 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 2012 is $8,989,000 (2011: $9,586,000).

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 or liabilities, including carried forward losses, not bought to account on the due to the realisation of such benefits as uncertain. The utilisation of tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped. The group is assessing whether to consolidate for Australian tax purposes from 1 July 2011. The determination has not been made, thus the disclosures remains consistent with prior periods, that the group is not consolidated for tax.

iv) R&D Tax Incentives
The group research and development activities are eligible under an Australian Government tax incentive for eligible expenditure from 1 July 2011. Management has assessed these activities and expenditure to determine which are likely to be eligible under the incentive scheme. For the period to 30 June 2012 the group has recorded a contra research and development expense of $1,323,000.

(b) Critical accounting judgments in applying accounting policies

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

4. Segment information

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

Reportable segments

2012	Australia $'000	USA $'000	Inter-segment Eliminations $'000	**Total $'000**
Revenue and other income	3,190	187	(473)	**2,904**
Expenses	(15,795)	(1,234)	467	**(16,562)**
Loss before income tax	(12,605)	(1,047)	(6)	**(13,658)**
Segment net assets	45,793	3,018	(160)	**48,651**

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

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

5. Revenue and other income

	Consolidated	
Revenue and other income	**2012 $'000**	2011 $'000
Royalty, customer & licence revenue	**881**	1,121
Interest revenue	**1,819**	981
Other revenue	**44**	23
Total revenue	**2,744**	2,125
Australian Government grants	**5**	92
USA Government grants	**155**	1,086
Total other income	**160**	1,178
Total revenue and other income	**2,904**	3,303

Total revenue and other income for the year was $2,904,000, a reduction of $399,000 from the previous year, on lower grant income from the US National Institutes of Health. The decrease in grant funding is partly offset by higher interest revenue earned on cash deposits.

6. Expenses

	Consolidated	
	2012 $'000	2011 $'000
Loss from continuing operations before income tax expense includes the following items:		
R&D Tax Incentive (contra expense)	**(1,323)**	–
Depreciation	**134**	172
Amortisation	**1,008**	1,360
Rental expense on operating leases	**329**	285
Defined contribution superannuation expense	**385**	426

7. Income tax expense

	Consolidated	
	2012 $'000	2011 $'000
(a) Income tax expense/(credit)		
Current Tax	**–**	–
Deferred Tax	**–**	–
	–	–
Income tax expense is attributable to:		
Profit from continuing operations	**–**	–
Profit from discontinued operations	**–**	–
Aggregate income tax credit	**–**	–
Deferred income tax credit (revenue) / expense included in income tax credit comprises:		
(Decrease) in deferred tax liabilities	**–**	–
	–	–

(b) Numerical reconciliation to income tax credit prima facie tax payable		
Loss from continuing operations before income tax	**(13,658)**	(8,930)
Tax at the Australian tax rate of 30% (2011: 30%)	**(4,097)**	(2,679)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
Eligible expenses claimed under R&D tax incentive	**485**	–
Amortisation of intangibles	**206**	–
Share-based payments	**134**	136
Unearned income	**(102)**	–
Sundry items	**91**	–
Difference in overseas tax rates	**24**	51
Previously unrecognised tax losses now recouped to reduce current tax expense	**57**	–
Future income tax benefits not brought to account	**3,202**	2,492
Income tax credit	**–**	–

(c) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised (as recovery is currently not probable)	**78,690**	67,575
Potential tax benefit	**23,817**	20,445

(d) Unrecognised temporary differences		
Temporary differences for which no deferred tax asset has been recognised as recoverability is not probable	**5,610**	1,140
Unrecognised deferred tax relating to the temporary differences	**1,720**	342

Potential future income tax benefits attributable to tax losses carried forward have not been brought to account at 30 June 2012 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 2012 which it believes will be satisfied.

8. Current assets – Cash and cash equivalents

	Consolidated	
	2012 $'000	2011 $'000
Cash at bank and on hand	**1,455**	2,099
Deposits at call	**41,357**	16,819
	42,812	18,918

Cash at bank and on hand
The cash is bearing floating interest rates based on current bank rates.

Deposits at call
The deposits are bearing floating interest rates ranging from 0.05% to 5.97% (2011: 0.05% to 6.19%). These deposits are at call up to 212 day maturities.

Cash not available
There is $300,000 of cash not available for use due to restrictions associated with a finance lease and credit card facility which is guaranteed by term deposits (2011: $186,000).

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

30 June 2012		**Floating Interest rate**	**Fixed interest maturing**								
	Notes	$'000	1 year or less $'000	1 to 2 years $'000	2 to 3 years $'000	3 to 4 years $'000	4 to 5 years $'000	More than 5 years $'000	Non-interest bearing $'000	Total $'000	Contractual cash flows
Financial Assets											
Cash and deposits	8	1,608	40,135	–	–	–	–	–	1,069	42,812	N/A
Receivables	9	–	–	–	–	–	–	–	2,053	2,053	2,053
		1,608	40,135	–	–	–	–	–	3,122	44,865	2,053
Weighted average interest rate		*2.7%*	*5.3%*	*–%*	*–%*	*–%*	*–%*	*–%*	*–%*		
Financial Liabilities											
Payables and provisions	12	–	–	–	–	–	–	–	5,080	5,080	5,080
Borrowings	13	–	40	25	27	30	18	–	–	140	140
Deferred income		–	–	–	–	–	–	–	397	397	397
		–	40	25	27	30	18	–	5,477	5,617	5,617
Weighted average interest rate		*–%*	*9.0%*	*8.2%*	*8.2%*	*8.2%*	*8.2%*	*–%*	*–%*		

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

9. Current assets – Trade and other receivables

	Consolidated 2012 $'000	2011 $'000
Trade and grant receivables	**1,436**	604
Interest receivables	**393**	183
Prepayments	**136**	153
Other receivables	**88**	83
	2,053	1,023

Trade and grant receivables
Trade receivables primarily comprise of revenue associated with research and development projects and are subject to normal terms of settlement within 30 to 90 days. Grant receivables comprise of expenditure reimbursable under grants from the Australian and Victorian Governments, including the R&D tax incentive.

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

Impaired receivables
As at 30 June 2012, there were no trade and grant receivables that were past due (2011: $80,000). No receivables are considered impaired at 30 June 2012 (2011: nil) other than from subsidiaries within the group.

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

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

Consolidated

	Plant and Equipment $'000	Leasehold improvements $'000	Plant and Equipment under finance lease $'000	Total Plant and Equipment $'000
At 30 June 2010				
Cost	2,246	1,141	614	4,001
Accumulated depreciation and amortisation	(2,108)	(1,136)	(538)	(3,782)
Net book amount	138	5	76	219
Year ended 30 June 2011				
Opening net book amount	138	5	76	219
Exchange differences	(2)	–	–	(2)
Additions	102	44	96	242
Disposals	(7)	–	–	(7)
Depreciation and amortisation	(61)	(11)	(100)	(172)
Closing net book amount	170	38	72	280
At 30 June 2011				
Cost	2,042	1,185	272	3,499
Accumulated depreciation and amortisation	(1,872)	(1,147)	(200)	(3,219)
Net book amount	170	38	72	280
Year ended 30 June 2012				
Opening net book amount	170	38	72	280
Additions	131	2	147	280
Disposals	(12)	–	–	(12)
Depreciation and amortisation	(54)	(18)	(62)	(134)
Closing net book amount	235	22	157	414
At 30 June 2012				
Cost	2,138	1,187	419	3,744
Accumulated depreciation and amortisation	(1,903)	(1,165)	(262)	(3,330)
Net book amount	235	22	157	414

11. Non-current assets – Intangible assets

Consolidated	Patents & Licences $'000	Goodwill $'000	Total Intangibles $'000
At 30 June 2010			
Cost	17,578	1,747	19,325
Accumulated depreciation and amortisation	(6,207)	–	(6,207)
Net book amount	11,371	1,747	13,118
Year ended 30 June 2011			
Opening net book amount	11,371	1,747	13,118
Exchange differences	(1,812)	(360)	(2,172)
Depreciation and amortisation	(1,360)	–	(1,360)
Closing net book amount	8,199	1,387	9,586
At 30 June 2011			
Cost	14,854	1,387	16,241
Accumulated depreciation and amortisation	(6,655)	–	(6,655)
Net book amount	8,199	1,387	9,586
Year ended 30 June 2012			
Opening net book amount	8,199	1,387	9,586
Exchange differences	337	74	411
Depreciation and amortisation	(1,008)	–	(1,008)
Closing net book amount	7,528	1,461	8,989
At 30 June 2012			
Cost	15,417	1,461	16,878
Accumulated depreciation and amortisation	(7,889)	–	(7,889)
Net book amount	7,528	1,461	8,989

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

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

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

(b) Key assumptions used for fair value less costs to sell estimation
The market capitalisation of the Starpharma group is used to determine an approximation of the fair value less costs to sell of the two CGUs which make up the group. Given the excess of the market capitalisation of Starpharma Holdings Limited over the carrying value of total assets (including goodwill) at 30 June 2012, 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 2012 and determined that there is no indication that the asset is impaired.

12. Current liabilities – Trade and other payables

	Consolidated	
	2012 $'000	2011 $'000
Trade payables and accruals	**4,156**	940
Other payables	**336**	287
	4,492	1,227

Trade payables and accruals
The majority of trade payables related to expenditure associated with clinical trial programs.

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.

2012		**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	–	40	25	27	30	18	–	140
Weighted average interest rate		*–%*	*9.0%*	*8.2%*	*8.2%*	*8.2%*	*8.2%*	*–%*	

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

14. Contributed equity

(a) Share Capital

	Consolidated		Consolidated	
	2012 Shares	2011 Shares	**2012 $'000**	2011 $'000
Share Capital				
Ordinary shares – fully paid	**280,802,451**	247,743,578	**139,171**	105,399

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue Price	$'000
1 Jul 2010		238,842,208		101,766
9 Sep 2010	Proceeds on exercise of employee options	250,000	$0.29	72
24 Sep 2010	Proceeds on exercise of employee options	280,000	$0.50	140
13 Oct 2010	Proceeds on exercise of employee options	50,000	$0.29	14
25 Oct 2010	Proceeds on exercise of employee options	50,000	$0.29	14
3 Nov 2010	Proceeds on exercise of employee options	172,000	$0.35	60
10 Nov 2010	Proceeds on exercise of employee options	350,000	$0.50	176
11 Nov 2010	Proceeds on exercise of employee options	150,000	$0.50	75
17 Nov 2010	Proceeds on exercise of employee options	290,000	$0.39	114
17 Nov 2010	Proceeds on exercise of options	20,000	$0.52	10
26 Nov 2010	Proceeds on exercise of employee options	168,000	$0.48	81
2 Dec 2010	Proceeds on exercise of options	600,000	$0.43	261
10 Dec 2010	Proceeds on exercise of employee options	175,000	$0.41	72
20 Dec 2010	Proceeds on exercise of employee options	30,000	$0.29	9
24 Dec 2010	Proceeds on exercise of options	750,000	$0.43	327
10 Jan 2011	CEO equity incentive plan share issue	487,500	$ –	–
1 Feb 2011	Employee share plan ($1,000) issue	28,560	$0.84	24
3 Feb 2011	Proceeds on exercise of options	600,000	$0.43	261
14 Feb 2011	Proceeds on exercise of options	600,000	$0.43	261
17 Feb 2011	Proceeds on exercise of employee options	150,000	$0.43	65
7 Mar 2011	Proceeds on exercise of options	639,453	$0.43	278
22 Mar 2011	Proceeds on exercise of employee options	210,000	$0.43	95
28 Mar 2011	Proceeds on exercise of options	1,010,000	$0.43	439
4 Apr 2011	Proceeds on exercise of options	1,500,000	$0.43	652
19 May 2011	Proceeds on exercise of employee options	158,000	$0.34	54
14 Jun 2011	Proceeds on exercise of options	182,857	$0.43	79
	Balance at 30 June 2011	**247,743,578**		**105,399**

Date	Details	Number of shares	Issue Price	$'000
01 Jul 2011		**247,743,578**		**105,399**
14 Jul 2011	Proceeds on exercise of employee options	40,000	$0.37	15
14 Jul 2011	Employee performance rights plan share issue	13,000	$ –	–
09 Aug 2011	Proceeds on exercise of employee options	140,000	$0.39	54
24 Aug 2011	Proceeds on exercise of employee options	10,000	$0.37	4
7 Sep 2011	Proceeds on exercise of employee options	80,000	$0.37	30
21 Nov 2011	Share placement	29,767,442	$1.08	32,000
	less transaction costs			(1,372)
30 Nov 2011	Proceeds on exercise of employee options	10,000	$0.37	4
14 Dec 2011	Share placement	2,791,305	$1.08	3,000
	less transaction costs			(50)
22 Dec 2011	Proceeds on exercise of employee options	40,000	$0.37	15
24 Jan 2012	Employee share plan ($1,000) issue	22,126	$1.18	26
24 Jan 2012	Proceeds on exercise of employee options	75,000	$0.29	21
29 Feb 2012	Proceeds on exercise of employee options	10,000	$0.37	4
14 Mar 2012	Proceeds on exercise of employee options	10,000	$0.37	4
14 Mar 2012	Proceeds on exercise of options	20,000	$0.29	6
16 Apr 2012	Proceeds on exercise of employee options	30,000	$0.37	11
	Balance at 30 June 2012	**280,802,451**		**139,171**

(c) Ordinary shares

As at 30 June 2012 there were 280,802,451 issued ordinary shares. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. There is no current on-market share buy-back.

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

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

(e) CEO Equity Incentive Plan

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

(f) Employee Performance Rights Plan

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

(g) Options

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

(h) Capital risk management

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

15. Reserves

(a) Reserves

	Consolidated	
	2012 $'000	2011 $'000
Share-based payments reserve	**3,265**	2,842
Foreign currency translation reserve	**(3,614)**	(4,035)
Asset revaluation reserve	**2,215**	2,215
	1,866	1,022

(b) Movement in reserves

	Consolidated	
Share-based payments reserve	**2012 $'000**	2011 $'000
Balance at 1 July	**2,842**	2,412
Share option expense	**-**	139
Performance right expense	**423**	291
Balance at 30 June	**3,265**	2,842
Foreign currency translation reserve		
Balance at 1 July	**(4,035)**	(1,751)
Currency translation differences arising during the year	**421**	(2,284)
Balance at 30 June	**(3,614)**	(4,035)

(c) Nature and purpose of reserves

(i) Share-based payments reserve

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

(ii) Foreign currency translation reserve

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

(iii) Asset revaluation reserve

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

16. Accumulated Losses

	Consolidated	
	2012 $'000	2011 $'000
Accumulated losses balance at 1 July	**(78,728)**	(69,798)
Net loss for the year	**(13,658)**	(8,930)
Accumulated losses balance at 30 June	**(92,386)**	(78,728)

17. Key management personnel disclosures

(a) Key management personnel compensation

	Consolidated	
	2012 $'000	2011 $'000
Short-term employee benefits	**2,043**	1,826
Post-employment benefits	**204**	255
Other long term benefits	**48**	39
Share-based payments	**301**	324
	2,596	2,444

Detailed remuneration disclosures are provided in the remuneration report on pages 14 to 21.

(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 the remuneration report.

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. No non-executive director held options in the current or prior year.

2012 **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	–	–	–	–	–	–	–
Other key management personnel of the group							
B P Rogers	200,000	–	–	–	200,000	200,000	–
J R Paull	125,000	–	–	–	125,000	125,000	–
C P Barrett	200,000	–	75,000	–	125,000	125,000	–
N J Baade	125,000	–	–	–	125,000	125,000	–
D J Owen	225,000	–	–	–	225,000	225,000	–
M L McColl	–	–	–	–	–	–	–

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

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

Performance rights holdings
The numbers of rights over ordinary shares in the company held during the financial year by each director of Starpharma Holdings Limited and other key management personnel of the group, including their personally related parties, are set out below. Except for J K Fairley, no other director held share rights in the current or prior year. J K Fairley was granted 375,000 rights to ordinary shares on 10 November 2011. The granting of these performance rights was approved by shareholders on 10 November 2011.

2012 Name	Balance at the start of the year	Granted during the year as compensation	Vested during the year	Other changes during the year#	Balance at the end of the year	Vested and exercisable at the end of the year	Unvested
Directors of Starpharma Holdings Limited							
J K Fairley	–	375,000	–	–	375,000	–	375,000
Other key management personnel of the group							
B P Rogers	64,000	32,000	–	–	96,000	–	96,000
J R Paull	80,000	40,000	–	–	120,000	–	120,000
C P Barrett	80,000	40,000	–	–	120,000	–	120,000
N J Baade	80,000	40,000	–	–	120,000	–	120,000
D J Owen	80,000	40,000	–	–	120,000	–	120,000
M L McColl	80,000	40,000	–	–	120,000	–	120,000

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

2011 Name	Balance at the start of the year	Granted during the year as compensation	Vested during the year	Other changes during the year#	Balance at the end of the year	Vested and exercisable at the end of the year	Unvested
Directors of Starpharma Holdings Limited							
J K Fairley	750,000	–	487,500	(262,500)	–	–	–
Other key management personnel of the group							
B P Rogers	–	64,000	–	–	64,000	–	64,000
J R Paull	–	80,000	–	–	80,000	–	80,000
C P Barrett	–	80,000	–	–	80,000	–	80,000
N J Baade	–	80,000	–	–	80,000	–	80,000
D J Owen	–	80,000	–	–	80,000	–	80,000
M L McColl	–	80,000	–	–	80,000	–	80,000

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

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.

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

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.

2012 Name	Balance at the start of the year	Granted during the year as compensation	On exercise of share options during the year	On vesting of performance rights during the year	Other changes during the year	Balance at the end of the year
Directors of Starpharma Holdings Limited						
Ordinary Shares						
P T Bartels	129,804	–	–	–	103,126	232,930
J K Fairley	1,819,821	–	–	–	(170,624)	1,649,197
R Dobinson	–	–	–	–	–	–
P J Jenkins	1,426,000	–	–	–	61,462	1,487,462
R A Hazleton	142,616	–	–	–	–	142,616
Z Peach[1]	–	–	–	–	2,000	2,000
P R Turvey[2]	–	–	–	–	30,000	30,000
Other key management personnel of the group						
Ordinary Shares						
B P Rogers	41,455	851	–	–	2,334	44,640
J R Paull	12,608	851	–	–	1,563	15,022
C P Barrett	2,608	851	75,000	–	–	78,459
N J Baade	132,608	851	–	–	(11,874)	121,585
D J Owen	52,608	851	–	–	–	53,459
M L McColl	1,190	851	–	–	–	2,041

[1] Appointed 1 October 2011.

[2] Appointed 19 March 2012.

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

[1] Resigned 17 June 2011

18. Remuneration of auditors

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

	Consolidated **2012** **$**	 2011 $
(a) Statutory audit services		
Audit or review of financial reports of the entity or any entity in the consolidated entity		
PricewaterhouseCoopers	**85,000**	113,000
Total remuneration for statutory audit services	**85,000**	113,000
(b) Other audit services		
Other audit services: Grant reviews & program audits		
PricewaterhouseCoopers	**–**	18,000
Total remuneration for other audit services	**–**	18,000
Total remuneration of auditors	**85,000**	131,000

19. Contingencies

The company has no contingent assets or liabilities at 30 June 2012 (2011: nil).

20. Commitments

(a) Capital Commitments

There is no capital expenditure contracted for, not recognised as liabilities at the reporting date (2011: nil).

(b) Lease Commitments

	Consolidated	
	2012 $'000	2011 $'000
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Not later than one year	**389**	335
Later than one year and not later than five years	**171**	355
Later than five years	**–**	–
	560	690
Representing:		
Cancellable operating leases	**420**	624
Non-cancellable finance lease	**166**	71
Future finance charges on finance leases	**(26)**	(5)
	560	690

Operating leases

The group leases laboratory and offices under a lease until 31 August 2013.

	Consolidated	
	2012 $'000	2011 $'000
Commitments for minimum lease payments in relation to cancellable operating leases are payable as follows:		
Not later than one year	**349**	286
Later than one year and not later than five years	**71**	338
Later than five years	**–**	–
Representing cancellable operating leases	**420**	624

Finance Leases

The group leases plant and equipment under a finance leases expiring within one to five years.

Commitments in relation to finance leases are payable as follows:	Notes	Consolidated 2012 $'000	Consolidated 2011 $'000
Not later than one year		**50**	53
Later than one year and not later than five years		**116**	18
Later than five years		**–**	–
Minimum lease payments		**166**	71
Future finance charges		**(26)**	(5)
Recognised as a liability		**140**	66
Representing finance lease liabilities:			
Current	13	**40**	49
Non-Current	13	**100**	17
		140	66

The weighted average interest rate implicit in the lease is 8.4% (2011: 10.1%).

(c) Expenditure Commitments

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

(d) Termination Commitments

The service contracts of key management personnel include benefits payable by the group on termination of the employee's contract. Refer to 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).

Name of entity	Country of Incorporation	Class of Shares	Equity Holding 2012 %	Equity Holding 2011 %
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

There are no significant events occurring since 30 June 2012 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	
	2012 $'000	2011 $'000
Operating loss after tax:	**(13,658)**	(8,930)
Depreciation and amortisation	**1,142**	1,532
Foreign exchange (gains) / losses	**(132)**	827
Non-cash employee benefits: share-based payments	**448**	456
Gain (loss) on sale of property, plant and equipment	**(13)**	(7)
Change in operating assets and liabilities, net of effects of acquisitions and disposals of entities:		
Decrease (increase) in receivables and other assets	**(989)**	357
Increase (decrease) increase in trade creditors	**3,266**	(354)
Increase in employee provisions	**116**	120
Increase (decrease) in deferred income	**50**	(477)
Net cash outflows from operating activities	**(9,770)**	(6,476)

24. Earnings per share

	Consolidated	
	2012 $	2011 $
Basic loss per share	**(0.05)**	(0.04)
Diluted loss per share	**(0.05)**	(0.04)
Net loss attributable to members of Starpharma Holdings Ltd used as the numerator in calculating diluted and basic earnings per share ($'000)	**(13,658)**	(8,930)
Weighted average number of ordinary shares outstanding during the year used as the denominator in calculating diluted and basic earnings per share	**267,652,960**	242,556,106

As at 30 June 2012 the company had on issue 2,778,809 (30 June 2011: 3,243,809) share options and 1,550,300 (30 June 2011: 750,800) performance rights that are not considered dilutive.

The options and rights have not been included in the determination of basic earnings per share. The options and rights granted are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. Given the entity is currently loss making, the potential shares are anti-dilutive and have therefore not been included in the diluted earnings per share calculation.

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:

2012

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								
21 Aug 2007[c]	22 Aug 2012	$0.43	1,684,809	–	–	–	1,684,809	1,684,809
31 Oct 2007[a]	7 Aug 2011	$0.50	30,000	30,000	–	–	–	–
1 Jan 2009[a]	28 Aug 2012	$0.29	395,000	95,000	–	–	300,000	300,000
1 Jan 2009[b]	28 Aug 2012	$0.29	20,000	20,000	–	–	–	–
29 Jun 2009[a]	28 Jun 2014	$0.37	1,114,000	320,000	–	–	794,000	794,000
Total			3,243,809	465,000	–	–	2,778,809	2,778,809
Weighted average exercise price			$0.39	$0.36	$ –	$ –	$0.40	$0.40

[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.

2011

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

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

No options were granted in the prior year.

The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2012 was $0.36 (2011: $0.43).

The weighted average remaining contractual life of share options outstanding at the end of the period was 0.67 years (2011: 1.77 years).

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

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

Shares

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

(b) Fair value of shares granted
The weighted average assessed fair value at grant date of employee shares granted during the year ended 30 June 2012 was $1.175 (2011: $0.84 per share). The fair value at grant date is determined by the share price on the date of grant. Employee shares were granted for no consideration.

Information used in assessing the fair value of shares granted during the year ended 30 June 2012 is as follows:

Share grant date	24 January 2012
Number of shares granted	22,126
Share price at grant date	$1.175
Assessed fair value	$1.175

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

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

Performance Rights

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

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

(c) Fair value of performance rights granted
The weighted average assessed fair value at grant date of performance rights granted during the year ended 30 June 2012 was $0.81 per right (2011: $0.39). There were 842,500 performance rights granted in the current year (2011: 830,800). The estimated fair value at grant date was independently determined using either an option pricing or a binomial model that takes into account the exercise price, the performance measure, the term of the right, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option. The expected price volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information.

Information used in assessing the fair value of performance rights granted during the year ended 30 June 2012 is as follows:

Right grant date	10 November 2011	10 November 2011	10 November 2011	25 November 2011
Number of rights granted	125,000	125,000	125,000	467,500
Vesting date	30 September 2012	30 September 2012	30 September 2012	25 November 2013
Disposal Restriction until	30 September 2013	30 September 2013	30 September 2013	25 November 2014
Performance Measure	Share Price ≥ $1.50	Share Price ≥ $2.00	KPIs	KPIs
Expected price volatility of the company's shares	50%	50%	50%	50%
Risk-free interest rate	3.8%	3.8%	3.8%	3.3%
Expected dividend yield	-	-	-	-
Share price at grant date	$1.08	$1.08	$1.08	$1.09
Assessed fair value	$0.30	$0.12	$0.96	$1.09

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

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

Expenses arising from share-based payment transactions

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

	Consolidated	
	2012 $'000	2011 $'000
Options issued under employee option plan	**-**	138
Employee shares issued	**26**	26
Employee performance rights issued	**423**	291
	449	455

26. Related party transactions

(a) Parent entity and subsidiaries

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

(b) Key management personnel

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

(c) Transactions with related parties

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

27. Parent entity financial information

(a) Summary financial information

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

	Parent	
	2012	2011
	$'000	$'000
Balance Sheet		
Current assets	**41,232**	16,876
Total assets	**58,836**	35,349
Current liabilities	**832**	988
Total liabilities	**1,485**	1,644
Shareholders' equity		
Contributed equity	**139,171**	105,399
Reserves	**2,755**	2,333
Accumulated losses	**(84,575)**	(74,027)
Loss for the year	**(10,548)**	(11,144)
Total comprehensive income	**(10,548)**	(11,144)

(b) Contingencies of the parent entity

The parent entity has no contingent assets or liabilities at 30 June 2012 (2011: nil).

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 30 to 67 are in accordance with the *Corporations Act 2001*, including:

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

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the financial year ended on that date; and

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

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

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

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

Peter T Bartels, *AO*
Director
Melbourne, 27 August 2012

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

Report on the financial report

We have audited the accompanying financial report of Starpharma Holdings Limited (the company), which comprises the balance sheet as at 30 June 2012, 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 Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

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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 2012 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.

Report on the Remuneration Report

We have audited the remuneration report included in pages 14 - 21 of the directors' report for the year ended 30 June 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

A J Linschoten

Anton Linschoten
Partner

Melbourne
27 August 2012

Shareholder Information

The shareholder information set out below was applicable as at 31 July 2012

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	516	–	–
1,001–5,000	1,346	–	–
5,001–10,000	764	1	4
10,001–100,000	1,253	6	17
100,000 and over	216	5	6
Total	4,095	12	27

There were 129 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

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

	Ordinary shares	
Name	Number held	Percentage of issued shares
1. HSBC Custody Nominees (Australia) Limited	50,475,546	17.92
2. National Nominees Limited	47,275,727	16.78
3. JP Morgan Nominees Australia Limited	29,807,573	10.58
4. Citicorp Nominees Pty Limited	12,003,655	4.26
5. JP Morgan Nominees Australia Limited <Cash Income A/C>	7,487,784	2.66
6. T & N Argyrides Investments P/L <Super Fund A/C>	5,500,799	1.95
7. Mr Peter Malcolm Colman	4,097,286	1.45
8. Kenneth Nominees Pty Ltd <Rayse Super Fund A/C>	4,040,000	1.43
9. Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	3,513,029	1.25
10. JPS Distribution Pty Ltd <Raff Super Fund A/C>	3,249,511	1.15
11. Applecross Secretarial Services Pty Ltd <Gorr Pension Plan A/C>	2,885,588	1.02
12. Mr Kingsley Bryan Bartholomew	2,000,000	0.71
13. Dr Stuart Keith Roberts	1,625,000	0.58
14. HSBC Custody Nominees (Australia) Limited <NT- Comnwlth Super>	1,568,289	0.56
15. Durbin Superannuation Pty Ltd <Durbin Family S Fund A/C>	1,559,412	0.55
16. Commonwealth Scientific And Industrial Research Organisation	1,448,798	0.51
17. UBS Wealth Management Australia Nominees Pty Ltd	1,438,739	0.51
18. JPS Distribution Pty Ltd <Raff Family A/C>	1,398,523	0.50
19. Mr Peter Murray Jackson	1,225,000	0.43
20. Mr Mario Argyrides	1,170,000	0.42
	183,770,259	65.24

	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)	944,000	11
Options issued under individual option deeds	946,859	1
Employee Performance Rights	1,550,300	27
Total	3,441,159	

C. Substantial holders

Substantial shareholders as shown in substantial shareholder notices received by the company as at 31 July 2012:

	Ordinary shares
Name	**Number held**
Acorn Capital Limited	36,614,463
Orbis Investment Management (Australia) Pty Ltd	23,151,172
M&G Investment Funds	25,310,817
The Dow Chemical Company	14,406,827

D. Voting rights

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

(a) Ordinary shares	On a show of hands every member present at a meeting in person or by proxy shall have one vote and on a poll each share shall have one vote.
(b) Options	No voting rights.
(c) Performance Rights	No voting rights.

E. Securities subject to voluntary escrow

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

	Type of equity securities	Number of equity securities	Number of holders	Release date
Employee Share Plan ($1,000 Plan)	Ordinary Shares	22,688	16	25 January 2013
Employee Share Plan ($1,000 Plan)	Ordinary Shares	26,180	22	1 February 2014
Employee Share Plan ($1,000 Plan)	Ordinary Shares	21,275	25	25 January 2015
CEO Equity Incentive Plan	Ordinary Shares	487,500	1	1 March 2013
Employee Performance Rights Plan	Performance Rights	717,800	20	31 August 2013
Employee Performance Rights Plan	Performance Rights	375,000	1	30 September 2013
Employee Performance Rights Plan	Performance Rights	457,500	25	25 November 2014

Intellectual Property Report

The Starpharma patent portfolio currently has around 30 active patent families with over 100 granted patents and more than 60 patent applications pending. Three new PCT applications were filed during the year.

Key patents within the Starpharma portfolio as at 2 August 2012:

Title	Priority Date & Publication Number	Patents Granted	Applications Pending
VivaGel® Patent Portfolio			
Antiviral Dendrimers	15 June 1994 WO95/34595	Australia, Brazil, Canada, China, Europe, Hong Kong, Japan, Mexico, New Zealand, Singapore, South Korea, USA	
Anionic Or Cationic Dendrimer Antimicrobial Or Antiparasitic Compositions	14 September 1998 WO00/15240	Australia, Canada, Europe, Japan, Mexico, New Zealand, Singapore, South Korea, USA	China
Agents For The Prevention & Treatment Of Sexually Transmitted Diseases-I	30 March 2001 WO02/079299	Australia, Canada, China, Europe, Hong Kong, Japan, Mexico, New Zealand, Singapore, South Korea, USA	Brazil
Microbicidal Dendrimer Composition Delivery System	18 October 2005 WO2007/045009	New Zealand, Russian Federation,	Argentina, Australia, Canada, China, Europe, Hong Kong, India, Japan, Malaysia, Mexico, South Korea, Taiwan, USA
Contraceptive Composition	22 March 2006 WO2007/106944	USA	Australia, Canada, China, Europe, Japan
Method Of Treatment Or Prophylaxis Of Bacterial Vaginosis	16 May 2011		USA, International application
Drug Delivery Patent Portfolio			
Disulfide-containing dendritic polymers	Sep 30, 1996	USA	
Macromolecules Compounds Having Controlled Stoichiometry	25 October 2005 WO2007/048190		Australia, Canada, Europe, USA
Modified Macromolecules	10 August 2006 WO2007/082331		Australia, Canada, China, Europe, India, Japan, USA
Targeted Polylysine Dendrimer Therapeutic Agent	11 August 2006 WO2008/017125		China, Europe, India, USA
Macromolecules	6 June 2011		International Application
Priostar Patent Portfolio			
Dendritic Polymers With Enhanced Amplification And Interior Functionality	20 April 2005 WO2006/065266	Canada, India, Israel, Japan, Mexico, New Zealand, Singapore, South Korea, Taiwan, USA	Argentina, Brazil, China, Europe, Hong Kong,
Dendritic Polymers With Enhanced Amplification And Interior Functionality	21 December 2005 WO2006/115547	Australia, Canada, India, Israel, Mexico, New Zealand, Singapore, South Korea, USA	Argentina, Brazil, China, Europe, Hong Kong, Japan, Taiwan,
PEHAM Dendrimers for use in Agriculture	26 October 2009 WO2011/053605		Australia, Brazil, China, Europe, India, Japan, USA

Corporate Directory

Company name

Starpharma Holdings Limited
ABN 20 078 532 180

Directors

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

Company Secretary

Ben Rogers

Registered office

Baker IDI 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 Pty Limited
452 Johnston Street, Abbotsford VIC 3067

GPO Box 2975
Melbourne, VIC 3001

1300 850 505 (within Australia)
+613 9415 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

Stock exchange listing

ASX Limited
Level 45, North Tower, Rialto, 525 Collins Street,
Melbourne VIC 3000 Australia

ASX Code: SPL

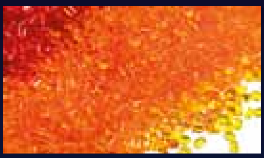
Starpharma's American Depositary Receipts (ADRs) trade under the code SPHRY (CUSIP number 855563102). Each Starpharma ADR is equivalent to ten ordinary shares of Starpharma as traded on the ASX. The Bank of New York Mellon is the depositary bank.

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

Website address

www.starpharma.com





STARPHARMA HOLDINGS LIMITED
ABN 20 078 532 180

Baker IDI Building
75 Commercial Road, Melbourne
VIC 3004 Australia

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

starpharma