STARPHARMA ANNUAL REPORT 2007

starpharma

STARPHARMA HOLDINGS LIMITED
ABN 20 078 532 180

CONTENTS

About Starpharma	03
Chairman's Statement	04
CEO's Review	05
Directors' Report	19
Corporate Governance Statement	36
Financial Report	41
Shareholder Information	82
Intellectual Property Report	84
Corporate Directory	86

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

2006–07 HIGHLIGHTS

- Acquires Dendritic Nanotechnologies Inc (DNT)
  DNT fully integrated and The Dow Chemical Company now largest shareholder
- VivaGel™ is safe and well-tolerated in men
  36 men tested with VivaGel™ in safety trial
- VivaGel™ condom coating agreement
  Deal within leading developed world country
- First trial of VivaGel™ for genital herpes
  Two-site trial commenced – in San Francisco (US) and Kisumu (Kenya)
- Further financial support for VivaGel™
  Microbicide Trials Network conducts NIH-funded trial in US and Puerto Rico
- siRNA reagent deal with EMD biosciences
  PrioFect™ transfection reagents for research sales launch due by end 2007
- US investment profile strengthens
  Joins premium market tier OTCQX; US investment bank initiates coverage

ABOUT STARPHARMA

Starpharma is a nanotechnology company with principal operations in Melbourne, Australia, and Michigan, United States. It is a world leader in the development of dendrimer products for pharmaceutical, life science and other applications.

Dendrimers are man-made chemical particles of a size measured in nanometres. One nanometre equals one billionth of a metre. Dendrimers are approximately spherical and have precisely defined functional groups on their surface that are capable of supporting a wide range of applications, from healthcare and personal care to manufacturing and electronics.

With the acquisition of investee company DNT in 2006, Starpharma gained access to the significant new IP, commercial products and other key assets of that company. Importantly, ownership of DNT has also opened up opportunities in siRNA and industrial markets. Starpharma could not have reached these markets through its proprietary technology at the time of the acquisition.

STARPHARMA'S VALUE DRIVERS

VivaGel™ (SPL7013 Gel)

VivaGel™ is the most advanced product in Starpharma's pharmaceutical pipeline. It is a vaginal microbicide under development for prevention of the spread of genital herpes and HIV, both of which are sexually transmitted infections. It is intended that VivaGel™ will be marketed widely in both developed and developing countries.

PrioFect™ transfection reagent:

To be effective as pharmaceuticals, genetic materials such as DNA and short interfering RNA (siRNA) must first enter the target cell, but they need help to do so. PrioFect™ is a so-called transfection reagent that transfers genetic materials into cells effectively and with low toxicity. siRNA is used widely in the laboratory and is of increasing interest to the pharmaceutical industry at this time since it holds potential as the basis of a whole new class of drugs.

PrioFect™ dendrimers were the subject of a licensing transaction between Starpharma and EMD Biosciences in 2007. The deal included upfront payments and royalty provisions for the sale of PrioFect™ as a laboratory reagent. All rights to applications of PrioFect™ in human therapy remain with Starpharma. In anticipation that markets for therapies involving PrioFect™ will be larger than those of the current research applications, the company is directing technical and business development resources toward development of the therapeutic opportunities.

Drug delivery and drug optimisation technologies

Starpharma has made substantial progress in the area of drug delivery and optimisation in the last year. Researchers have collected new data on how dendrimers can alter the pharmacokinetic properties of both small molecule drugs and protein therapeutics, and potential partners have displayed strong interest in the early results. As with PrioFect™, this technology may be licensable to multiple pharmaceutical companies for addressing the common difficulties that often arise with drugs under development, such as solubility, stability and distribution between tissues of the body.

Existing revenue streams

Starpharma continues to receive steady revenue from royalty-bearing licences and anticipates early growth in such revenue streams in the diagnostic and life sciences areas.

Industrial applications of dendrimers

Starpharma has several products in late-stage product evaluation with large multi national corporations to exploit in industrial areas the technologies acquired with DNT. Due to their large size, the markets for the type of specialty chemicals involved in such applications represent substantial near-term commercial opportunities in diverse areas. For example, Starpharma recently announced the awarding of a US$1.3 million-contract to DNT and the Central Michigan University Research Corporation to develop water remediation technology using DNT's Priostar dendrimer-based nanotechnology. The dendrimer will be used as a 'sponge' to soak up toxic chemicals in groundwater, leaving the water purer and useable. Additionally, dendrimers are being used to amplify, and increase the duration of, the signal produced by existing products in the multi-billion dollar fluorescent reagents market. Fluorescent reagents are used extensively in laboratories for high-throughput screening.

CHAIRMAN'S STATEMENT

The Board and management believe that the acquisition of DNT propelled Starpharma into a new league and opened up wide-ranging commercial opportunities for the combined entity. We have, in one step, considerably expanded our pipeline and internationalised our business.

Peter T Bartels, *AO*
Chairman

Dear Shareholder,

On behalf of the Board and management of Starpharma, I am pleased to present the 2006-07 annual report for your review.

I am also pleased to report that FY2007 has been one of transformation with several significant achievements on a number of fronts. For me, the completion of Starpharma's acquisition was a defining moment for the company.

With its dendrimer and nanotechnology focus, its US presence and existing relationship with Starpharma, our investee company, Dendritic Nanotechnologies Inc (DNT) was a natural target for acquisition. The knowledge and expertise of our Board members were key factors in the successful resolution of negotiations.

I travelled with the CEO to the US and visited DNT at the time of the acquisition and was able to see at first hand the level of exciting opportunities that the company presented. I also met Richard Hazleton, the Chairman of the DNT Board at the time and now a member of the Starpharma Board.

To have Richard accept the offer of appointment to Starpharma's Board was a very positive outcome for Starpharma as a strategic component of integration activities associated with the acquisition, and beyond.

As the retired chairman and CEO of Dow Corning, he brings a huge amount of experience to an already strong Board in the areas of technology commercialisation and international management. The Board and management believe that the acquisition of DNT propelled Starpharma into a new league and opened up wide-ranging commercial opportunities for the combined entity. We have, in one step, considerably expanded our pipeline and internationalised our business. The resultant portfolio of commercial opportunities is evidence of the extraordinary versatility of our technology.

Our lead product VivaGel™ has also made solid progress. We have multiple clinical trials under way, or completed, in Australia, the US and Kenya and expect to roll out the results over the coming months as a forerunner to efficacy trials. Additionally, the prospect of VivaGel™ as a contraceptive and condom coating has expanded our future commercialisation and market opportunities.

Operationally, Starpharma has made significant progress, however, the biotechnology sector remains unfairly rated in Australia. We must work hard to educate investors about the many prospects of Starpharma in parallel with a continued effort to expand our profile and opportunities in the US, where we are experiencing considerable investor and corporate interest.

Over the next year, our aim is to achieve further scale-up, and to progress our clinical trial program for VivaGel™, which is critical in moving our commercialisation strategy forward. Revenues generated through our products already on the market combined with ongoing support from the US National Institutes of Health will provide a solid platform for progress.

Finally, I'd like to thank my fellow Board members, CEO Jackie Fairley and her management team, and our entire staff both in Australia and the US for their collective efforts over the last 12 months. We enter the financial year with a strong and visionary team and a clear strategic direction, and believe we are well placed for impressive growth.

CEO'S REVIEW

The outlook for the year ahead is firmly focused on continued hard work to advance our clinical program and expand commercial opportunities for our exciting and strengthened portfolio. We are confident that the year ahead will be one of further significant progress for Starpharma.

Jackie Fairley
Chief Executive Officer

When we released the previous annual report, I had only recently been appointed as CEO of Starpharma. June 30 2007 marked the end of my first full financial year in the role and the end of a very busy period in the growth and maturation of the company.

Highlights of the year were the acquisition of Dendritic Nanotechnologies Inc, the commencement in October 2006 of the first clinical trial of VivaGel™ under the genital herpes development program, and the associated expansion of Starpharma's commercialisation opportunities, particularly into siRNA transfection and condom coatings.

Shareholders were strongly in favour of Starpharma's offer to acquire 100% ownership of DNT through the issue of Starpharma shares and there is no doubt that the acquisition was a defining event in positioning Starpharma as a truly international dendrimer nanotechnology company. It opened up a range of commercialisation opportunities in the pharmaceutical, drug delivery, life science and industrial sectors.

An important consequence of the acquisition has been that The Dow Chemical Company is now Starpharma's largest shareholder, holding 8.02% of shares on issue.

FY2007 has also seen a significant push on our part to increase the business focus in the US, which is particularly relevant now that we have a US-operating subsidiary.

There has been strong growth in the issuance of new ADRs (American Depository Receipts) and ongoing interest from US investors. The annual growth showed an increase of 45.5% in the number of ADRs issued for the 12 months to July 2007, taking to 10.6% the proportion of issued capital held as ADRs. In fact, Starpharma's growth was described by our depositary bank, the Bank of New York, as 'exceptional', and it placed us as the most successful Level 1 ADR program amongst Australian biotechs.

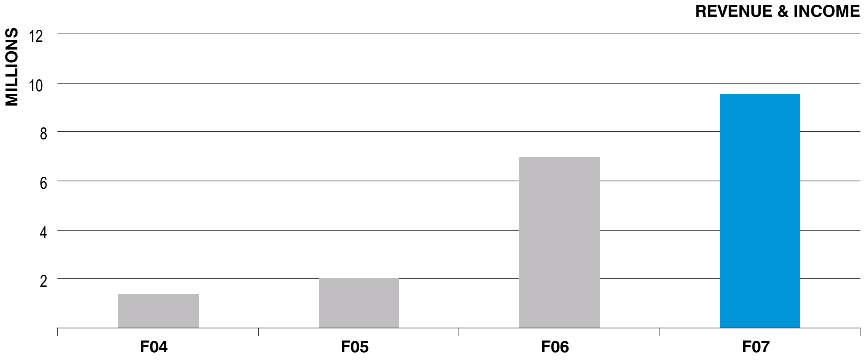
In line with the interest in Starpharma stock following the DNT acquisition, we launched a major Investor Relations program in the US, which continues to be an area of focus for investment.

In the past year I have traveled to the US every 2-3 months for business development and IR activities. The trips have enabled me to make contact with a number of fund managers with an interest in biotechnology, life sciences and other growth sectors in Boston, New York and San Francisco. I have come away from these meetings with the clear message that Starpharma's nanoscale dendrimer technology and achievements, especially the level of NIH funding, coupled with the opportunity for VivaGel™ in the US, particularly for genital herpes, are front of mind with US investors.

Building on this interest, Starpharma was one of the first companies in the world to qualify for listing on OTCQX (Starpharma's code is OTCQX:SPHRY), the new US premium market tier listing service for Level 1 ADR companies.

In June 2007, Starpharma received for the first time coverage from a US investment bank, with Merriman Ford Curhan and Co initiating coverage. This was a significant milestone in terms of raising our profile in the US.

CEO'S REVIEW



As detailed elsewhere in this report, this year we have continued to make good progress in the development of VivaGel™. In July 2007, we reported the completed male study at the International AIDS Society meeting in Sydney, to mark the first occasion on which Starpharma had presented the results of a clinical trial at an international meeting of such high calibre. On the commercial front, FY2007 was also a period of crystallisation of opportunities for dendrimer technologies. In February 2007, Starpharma signed a deal with EMD Biosciences for the inclusion of Priostar™ dendrimers in their siRNA transfection kits.

Shareholders may be aware that siRNA technology is considered a very exciting development for the industry and the level of recent corporate activity in this area indicates a strong interest amongst large pharmaceutical companies.

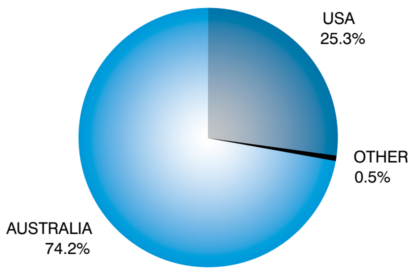
The company now has several royalty-bearing licences for dendrimer technology including with EMD, Qiagen and Dade Behring, and has also extended a pre-existing commercial deal with Sigma Aldrich for the sale of dendrimers into new product lines.

In July 2007, our first deal was sealed with a market leading condom manufacturer to explore the use of VivaGel™ as a coating for condoms.

During the past year, changes to our management team have resulted in a more streamlined leadership group with the skills, drive and experience to take the new merged company to its next stage of development. In Australia, we welcomed Dr David Owen in the newly created role of Vice President of Research and in the US, Dr Robert Berry, President of DNT.

The outlook for the year ahead is firmly focused on continued hard work to advance our clinical program and expand commercial opportunities for our exciting and strengthened portfolio. We are confident that the year ahead will be one of further significant progress for Starpharma.

SHAREHOLDERS BY LOCATION
SEPTEMBER 2007



diversification

Beyond pharmaceutical applications, our dendrimer technology can be applied to improving plastics and adhesives and removing impurities from water.

STARPHARMA'S ACQUISITION OF DNT

"What particularly drew me to DNT was the realisation that when I joined Dow Corning, silicones were at a similar stage to that of dendrimers today. I had the opportunity to participate in the growth of a second revolutionary technology."

Dick Hazleton, former CEO of Dow Corning and now Starpharma director, on his belief of the significance of the dendrimer technologies now owned by Starpharma.

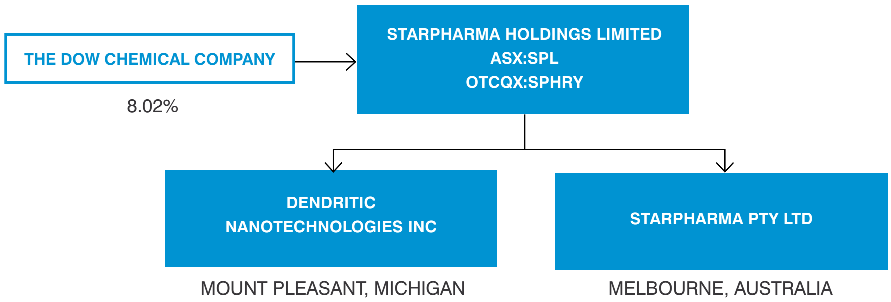
Starpharma has had a long-standing relationship with US-based Dendritic Nanotechnologies (DNT) in which it held a 33% stake before acquiring the company in October 2006. The second largest shareholder in DNT at that time was The Dow Chemical Company, with a 30% stake.

When Starpharma acquired 100% of DNT, Dow and other DNT shareholders received Starpharma shares valued at approximately US$6.97 million.

Given the complementary platform technologies of Starpharma and DNT and the opportunities to rationalise development programs, it was natural that Starpharma's management would consider the acquisition, as noted by several industry commentators after the event.

A year on, Starpharma believes strongly that the acquisition was good value and that the transaction represents a very positive development for the company and its shareholders.

Post-acquisition, Starpharma has increased the diversity and extent of its pipeline in pharmaceutical, life science and other industrial applications, the opportunities for near-term revenue, and the size of its IP portfolio, confirming the company as the global leader in dendrimer-based nanotechnology. In addition, Starpharma has grown to a total of 52 employees–16 in the US and 36 in Australia.



THE STRUCTURE OF STARPHARMA HOLDINGS POST ACQUISITION OF DNT

The benefits of the now merged company are:

Diversified product portfolio
DNT's product portfolio included the newly developed Priostar™ technology, which established a viable commercial price point for industrial applications as well as opportunities for additional short-term revenues. These have already borne fruit in Starpharma's licensing deal with EMD Biosciences. Specifically, DNT's portfolio enabled Starpharma to diversify risk and increase the likelihood of commercial success.

Rationalisation of business strengths
The combined internal resources are world class, with expertise in commercialisation, regulatory, scale-up and discovery facets of the company.

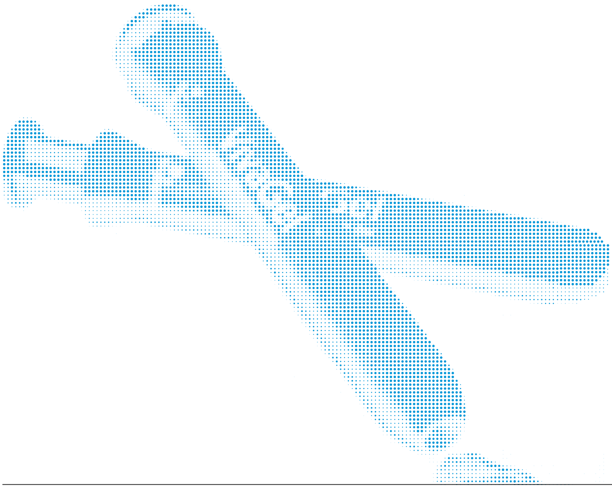
Extensive IP portfolio
Starpharma's IP portfolio is the strongest of the dendrimer technology industry as a result of the acquisition.

Increased US presence
DNT provided an entrée to the US that improves not only Starpharma's profile, but also its access to current and future industry partners and financial markets. In recognition of the importance of the US in the nanotechnology space, Starpharma's strategy includes enhancement of its US links and growth of its US shareholder base. The appointment to the board of Dick Hazleton, retired Dow Corning Chairman and CEO, was a significant step toward that end.

Ongoing involvement of The Dow Chemical Company (Dow)
As a result of the acquisition, Dow became Starpharma's largest shareholder, and this enhanced Starpharma's profile within the industry, and among potential funding partners.


progress

IN PROFILE VIVAGEL™



The primary objective of the VivaGel™ program is to enable women to protect themselves from sexually transmitted infections through the use of a vaginal microbicide, VivaGel™ (SPL7013 gel). The gel is initially being developed to prevent infection by HIV and the virus that causes genital herpes (HSV-2).

The spread of both HIV and HSV-2 continues apace, despite the allocation of vast international resources to solving the problem. Researchers in academia and industry have been attempting for many years to develop vaccines for the prevention of AIDS and genital herpes. However, their attempts to date have been largely unsuccessful, and it is unlikely that efficacious vaccines will be available in the foreseeable future.

Meanwhile, many influential individuals and organisations are placing great store on stemming the rise in HIV and HSV infection through other means, particularly the availability of an effective microbicide. Microbicides are perceived to have an advantage because their use can be initiated and managed by women.

GENITAL HERPES

Genital herpes (HSV-2) is a recurrent, lifelong, prevalent viral infection, estimated to infect 15% to 25% of male and female adults in developed countries, or about 45 million people in the US alone. In the US, where the disease is at near-epidemic proportions, this figure is expected to rise substantially to almost 40% for males and 50% for females by 2025, unless effective preventative measures are found. HSV-2 infection has been associated with increased susceptibility to infection by HIV and increased risk of HIV transmission, making HSV-2 an important target to slow the spread of both viral infections.

HIV

HIV, the virus that causes AIDS, is thought to infect about 40 million people worldwide. In the US, AIDS is the number one cause of death among African-American women aged 25 to 34. Sexual transmission is a major contributor to the spread of HIV/AIDS.

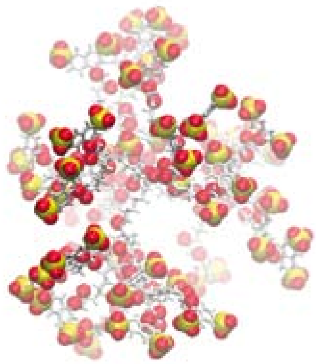
THE TECHNOLOGY BEHIND VIVAGEL™

The active ingredient of VivaGel™, SPL7013, is a dendrimer. Dendrimers are man-made, nanoscale spherical molecules that have many potential applications in medicine and industry.

commercialisation

DENDRIMER AS A DRUG

EG. THE ANTI-VIRAL ACTIVE INGREDIENT VIVAGEL™



LEFT A representation of VivaGel™'s active ingredient SPL7013. Shown here in red and yellow are active groups that are believed to bind to HIV and HSV-2 viruses, rendering them inactive.

DEVELOPMENT STRATEGY FOR VIVAGEL™

Starpharma's objective is to demonstrate the safety and efficacy of VivaGel™ as a vaginal microbicide for the prevention of HIV and HSV-2 infection. The opportunity may also exist to extend its use to the prevention of other sexually transmitted infections.

The finding in animal studies that VivaGel™ has a potent contraceptive effect is a positive outcome for the product, since certain market segments have indicated that contraception would be a desirable attribute for a microbicidal gel.

The economic considerations surrounding the active ingredient, formulation and applicator for VivaGel™ indicate its suitability for mass marketing.

As explained below, Starpharma continues to work to demonstrate safety of VivaGel™ in larger clinical trials enrolling men and women.

PROGRESS TO MARKET OF VIVAGEL™ (SPL7013 GEL)

The development of VivaGel™ as a microbicide for the prevention of infection by HIV or HSV-2 advanced substantially during the reporting period.

The program for assessing VivaGel™ for the prevention of HIV is being undertaken with funding from a number of sources beyond those of shareholders, including a US$20.3 million-contract with the US National Institutes of Health (NIH), through the National Institute of Allergy and Infectious Diseases (NIAID), Division of AIDS (DAIDS).

A trial of the safety of VivaGel™ in healthy males conducted between August 2006 and February 2007 showed that once daily topical application of the gel to the penis for seven days was well tolerated and indicated that the product was safe for continued development.

In February 2007, Starpharma established a collaboration with the Microbicide Trials Network (MTN) in the US, through NIAID and the National Institute of Child Health and Human Development (NICHD), to advance the development of VivaGel™ for the prevention of HIV. Under the MTN collaboration, VivaGel™ will be assessed for the first time in sexually active young women, a target population for the product. The trial commenced in July 2007 in Florida in the US, and Puerto Rico.

Similarly, the development of VivaGel™ for the prevention of genital herpes is also in collaboration with the NIAID, through its Division of Microbiology and Infectious Diseases (DMID).

A clinical trial of VivaGel™ is under way at two sites – San Francisco in the US and Kisumu, Kenya. This trial involving sexually abstinent women is progressing well.

Starpharma has actively pursued the potential use of VivaGel™ as a condom coating and has recently signed an agreement with a leading manufacturer of condoms in connection with SPL7013 as a condom coating agent. And under an NIH grant of US$5.4 million, research is continuing into the potential for combination microbicides using dendrimer technology to prevent HIV infection.


high impact

DENDRIMER NANOTECHNOLOGY

One definition of nanotechnology is the manipulation of matter on the scale of the nanometre, which is one billionth of a metre. Dendrimers are nanoscale molecules of defined structure for which the chemical and physical properties are determined during their synthesis. Starpharma is exploiting the unique properties of dendrimers in the pharmaceutical, bioscience and other industries.

STARPHARMA'S PIPELINE: BALANCED FOR RISK

Pharmaceutical & Medical Products	**Proof of concept**	**Lead**	**Clinical Trials**	**Sales**
VivaGel™ • Genital Herpes prevention • HIV prevention • condom coating & other line extensions				
ADME Engineering™ • Therapeutic protein PK optimisation				
Drug Delivery – Small Molecules • Cancer therapeutic				
Drug Optimisation • Enhanced solublisation				
In–vivo and in vitro Diagnostics • Stratus CS® (Cardiac Diagnostic) • MRI imaging (Ovarian cancer & cardiovascular disease)				
Life-Science Products etc	**Proof of concept**	**Prototype**	**Pre-launch**	**Sales**
Gene Transfection Reagents • SuperFect®				
siRNA Transfection Reagents • PrioFect™				
Materials Sciences Products	**Early**	**Intermediate**	**Advanced, Partnered**	**Sales**
Specialty & Fine Chemicals • Priostar™ Dendrimers (multiple applications) • Starburst™ Dendrimers (catalogue of over 200 products)				

research

IN PROFILE – PRIOFECT™ FOR siRNA DELIVERY

In February 2007, Starpharma signed a license and supply agreement with EMD Biosciences for the use of PrioFect™ reagents for the research market. PrioFect™ reagents constitute a new generation of transfection reagents, which are used to facilitate the transfer of nucleic acids such as DNA and RNA into cells. The market for such reagents is estimated at US$200 million.

The deal was the first commercial application of Starpharma's new Priostar™ technology.

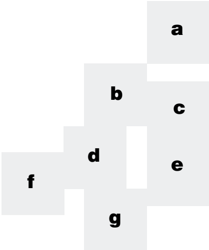
PrioFect™ reagents are of great interest for the delivery of siRNA (small interfering RNA), which activates the natural cellular process (RNAi: 'i' for interference) that causes degradation of specific RNA molecules to prevent the expression of the corresponding genes.

The siRNA technology has the potential to provide highly specific medicines that can stop the production of deleterious proteins associated with disease states. The first step in using RNAi as a research tool to interfere with gene expression is the transfection of siRNA into cells.

There are literally thousands of different cell types, some of which are 'hard' to transfect while others are relatively 'easy'. One feature that sets PrioFect™ apart from other transfection reagents is their availability in different sizes that can be optimised for individual cell types. Starpharma's research has demonstrated that changing reagent size in nanometer increments has a dramatic effect on transfection efficiency across cell lines.

Starpharma is now developing PrioFect™ for potential therapeutic applications of siRNA. The area of siRNA research is one of rapid growth and the technology has enormous potential in the hunt for new, highly-specific medicines. Conceptually, siRNA can be used to target almost any protein for which the gene is defined. The researchers who first reported the biological process of RNAi were awarded the 2006 Nobel Prize for Physiology or Medicine. Already there has been significant corporate activity in siRNA as large pharmaceutical companies such as Merck Inc. Roche and Astra Zeneca race to gain advantage over one another's technology.

a Jackie Fairley
b Robert Berry
c Nigel Baade
d Paul Barrett
e Jeremy Paull
f David Owen
g Ben Rogers



team

MANAGEMENT

Starpharma's management team provides the expertise and experience necessary to fulfil its commitment to create value through the development and commercialisation of new pharmaceutical products based on dendrimers. During the year, we welcomed David Owen to the team as well as Bob Berry, who continues to run the DNT operation in the US.

Jackie Fairley Chief Executive Officer, BSc, BVSc(Hons), MBA
Jackie has over 17 years' experience in the pharmaceutical and biotechnology industries, working in business development and senior management roles with companies including CSL and Faulding (now Mayne Hospira). Before joining Starpharma in 2005, she was Chief Executive Officer of Cerylid Biosciences which generated in excess of $20 million in revenues from companies such as Chiron, Chugai and Aventis. Jackie also spent five years as a Vice President for Faulding's injectable division and more than five years with CSL in various executive roles.

Nigel Baade Financial Controller, BCom, CPA, GradDipArts (Development)
Nigel is a CPA-qualified accountant with extensive experience in the pharmaceutical and biotechnology industries. He was previously finance manager of Cerylid Biosciences; and Manager Accounting, International Business Development for Faulding (now Mayne Hospira). Before joining Starpharma in January 2006, Nigel had a corporate planning role with multinational, Hagemeyer.

Paul Barrett Vice President Business Development, BSc(Hons), PhD
Paul has 6 years experience in marketing and business development gained from working with start-up and multinational technology companies in the UK. His employers have included Nortel Networks, Smiths Industries Aerospace and Bookham Technology. His doctoral and post-doctoral studies were conducted at Heriot-Watt University and the University of Oxford, UK. Paul's technical publications range from molecular biology and bioinformatics to photonics and telecommunications.

Robert Berry President of DNT, PhD
Robert has been involved in the technology and research field for more than 25 years. In that time, he has founded four companies and consortia to advance the use of technology and research. Bob most recently served as the president and CEO of the Central Michigan University Research Corporation and as the chief technology officer at Central Michigan University. He received his doctorate from Northern Arizona University, where he was a faculty member and was Assistant Director of Research.

David Owen Vice President Research, BSc(Hons), PhD
David has extensive experience in medicinal chemistry, biochemistry and managing teams focussed on commercial drug discovery. He started in the biotech industry as a senior chemist with Mimotopes, where he managed programs major pharmaceutical companies. He later became head of chemistry at Cerylid, and later at Glykoz, where he worked on a new class of antibacterial agents. David's expertise covers the synthesis of a wide range of compound types. He is a co-author on several publications and patents.

Jeremy Paull Vice President Development and Regulatory Affairs, BSc(Hons), PhD
Jeremy has 7 years' experience in drug and device development, quality assurance, and regulatory and clinical affairs and is currently the Principal Investigator for Starpharma's two NIH-funded programs. He has been instrumental in the VivaGel™ development program and was responsible for the first clinical trials of the product under the IND application to the US FDA. Jeremy has a PhD in pharmacology, and previously worked on the development of a medical device for transdermal drug delivery.

Ben Rogers Company Secretary and Chief Financial Officer
Ben has extensive experience in finance and human resources management with the CSIRO research laboratories. He also operated his own consulting business providing services to Co-operative Research Centres and CSIRO Divisions. Ben joined Starpharma in 1997.

DIRECTORS' REPORT

Your directors have pleasure in presenting this report on the consolidated entity consisting of Starpharma Holdings Limited and the entities it controlled at the end of, or during, the year ended 30 June 2007.

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 M Colman
R Dobinson
J K Fairley
L Gorr
P J Jenkins
J W Raff

R A Hazleton was appointed a director on 1 December 2006 and continues in office at the date of this report.

Principal Activities

The principal activities of the Company consist of development and commercialisation of dendrimer products for pharmaceutical, life-science and other applications. Activities within the Company are directed towards the development of precisely defined nano-scale materials, with a particular focus on the development of its topical vaginal microbicide VivaGel™ for the prevention of genital herpes, HIV and the application of dendrimers to drug delivery and other life science applications. More broadly, through partners the company is also exploring dendrimer opportunities in materials science with applications in areas such as adhesives, lubricants and water remediation. These activities are managed by the Company's wholly owned subsidiaries Starpharma Pty Ltd. in Melbourne, Australia and Dendritic Nanotechnologies ("DNT"), Inc in Michigan, USA. Products based on the Company's dendrimer technology are on the market in the form of diagnostic elements and laboratory reagents.

Dividends

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

Review of Operations

Information on the operations and financial position of the Group and its business strategies and prospects is set out in the review of the operations and activities on pages 2 to 18 of this annual report.

Operating Loss

For the year ended 30 June 2007 the consolidated entity incurred an operating loss after income tax of $7,244,996 (June 2006: $7,522,789).

Significant changes in the state of affairs

On 20 October 2006 the Company signed an agreement to acquire the associated company DNT through the issue of 20.1 million Starpharma Holdings Limited shares. At this time the Company owned 33% of DNT and The Dow Chemical Company was the other major shareholder with a 30% equity stake.
On completion of the transaction DNT became a wholly owned operating subsidiary of Starpharma Holdings Limited and the Dow Chemical Company became a substantial shareholder in Starpharma Holdings Ltd with approximately 8.6% of the issued shares of the Company.

In the opinion of the directors there were no other significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review not otherwise disclosed in this report or in the financial statements.

Matters subsequent to the end of the financial year

On 22 August 2007 Starpharma Holdings Limited raised an additional $3.8 million in capital through the issue of 11,881,167 ordinary shares in a private placement to a US-based institution and an existing Australian institutional shareholder at a price of $0.3212 per share. Attached to the placement were unlisted options of 7,567,119. The options have an exercise price of $0.4346 per option with an expiry date of 21 August 2012.

The proceeds of the placement will principally be used to support the further development of Starpharma's dendrimer programs, in particular drug delivery, its PrioFect™ siRNA delivery technology and the condom coating line extension of VivaGel™.

No further matters or circumstances have arisen since 30 June 2007 that have significantly affected, or may significantly affect:
(a) the consolidated entity's operations in future financial years, or
(b) the results of the operations in future financial years, or
(c) the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

In the opinion of the directors, the consolidated entity will continue its activities as described. Further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Regulatory Environment

There were no significant changes in laws or regulations during 2006/07 or since the end of the year affecting the business activities of the consolidated entity, and the directors are not aware of any such changes in the pipeline.

Environmental regulation

The Company is subject to environmental regulations and other licences in respect of its laboratory facilities in Melbourne (Victoria) and Mt Pleasant (Michigan, USA). There are adequate systems in place to ensure compliance with relevant Commonwealth, State and Federal environmental regulations and the Directors are not aware of any breach of applicable environmental regulations by the consolidated entity.

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 Starpharma are committed to providing and maintaining a safe and healthy working environment for the Company's employees and anyone entering its premises or with connection to the Company's business operations. The Company has adopted an Occupational Health and Safety (OH&S) Policy and has established OH&S Committees as part of its overall approach to workplace safety. Further details of the Company's policy and practices are set out in the corporate governance statement on page 40 of this annual report.

Information on Directors

Peter T Bartels, ***AO,*** **FAISM, FRS.**
Chairman – Non-executive, Age 66.

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

Other current directorships of listed entities
None.

Former directorships of listed entities in last 3 years
None.

Special Responsibilities
Chairman of the Board.
Member of remuneration & nomination committee.

Interests in shares and options
109,804 ordinary shares in Starpharma Holdings Limited

John W Raff
Dip. Ag. Sc., BSc., PhD.
Non-executive director Age 58.

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

Other current directorships of listed entities
None.

Former directorships of listed entities in last 3 years
None.

Special Responsibilities
Deputy Chairman

Interests in shares and options
5,706,689 ordinary shares in Starpharma Holdings Limited

Jacinth K Fairley
B.Sc., B.V.Sc.(Hons), MBA
Chief Executive Officer, Age 44.

Experience and expertise
Chief Operating Officer of Starpharma from 4 July 2005 to 30 June 2006. Chief Executive Officer since 1 July 2006. Over 15 years' experience in the pharmaceutical and biotechnology industries working in business development and senior management roles with companies including CSL and Faulding (now Mayne Hospira). Former Chief Executive Officer of Cerylid Biosciences. 5 years as a Vice President for Faulding's injectable division and 5 years with CSL in various executive roles. She holds first class honours degrees in Science (pharmacology/pathology) and Veterinary Science, and has an MBA from the Melbourne Business School where she was the recipient of the Clemenger Medal.

Other current directorships of listed entities
None

Former directorships of listed entities in last 3 years
None.

Special Responsibilities
Chief Executive Officer
Member of research committee

Interests in shares and options
30,250 ordinary shares in Starpharma Holdings Limited

800,000 options over ordinary shares in Starpharma Holdings Limited

350,000 options over ordinary shares in Starpharma Holdings Limited (subject to shareholder approval at the next Annual General Meeting of the Company)

Information on Directors (continued)

Peter M Colman
BSc(Hons), PhD, FAA, FTSE.
Independent non-executive director, Age 63.

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

Other current directorships of listed entities
None.

Former directorships of listed entities in last 3 years
None.

Special Responsibilities
Member of research committee.

Interests in shares and options
5,992,286 ordinary shares in Starpharma Holdings Limited

Ross Dobinson
B. Bus (Acc)
Independent Non-executive director, Age 55.

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

Other current directorships of listed entities
Non-executive director of two other public companies: Acrux Ltd (director since 2000 and Chairman since 31 January 2006) and Roc Oil Company Limited (director since 1997).

Former directorships of listed entities in last 3 years
None.

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

Interests in shares and options
2,720,976 ordinary shares in Starpharma Holdings Limited

Leon Gorr
B. Juris, LLB, M.Admin
Independent non-executive director, Age 63.

Experience and expertise
Non-executive director for six years. Non-executive director of Starpharma Pty Ltd for ten years. Senior Partner, Herbert Geer & Rundle. 34 years' experience as a solicitor. Extensive experience in providing advice on the negotiation and interpretation of technology licensing agreements. Clients include investors in, and advisors to the biotechnology industry.

Other current directorships of listed entities
None.

Former directorships of listed entities in last 3 years
None.

Special Responsibilities
Member of audit & risk management committee.
Member of remuneration & nomination committee.

Interests in shares and options
5,204,704 ordinary shares in Starpharma Holdings Limited

Information on Directors (continued)

Richard A Hazleton
BSChE, MSChE, HonDrEngr, HonDrCommSci
Independent Non-executive director, Age 65.

Experience and expertise
Independent non-executive director since 1 December 2006. former chairman of US-based global corporation Dow Corning.

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

Other current directorships of listed entities
None

Former directorships of listed entities in last 3 years
None.

Interests in shares and options
42,616 ordinary shares in Starpharma Holdings Limited

Peter J Jenkins
MB, BS (Melb), FRACP
Independent Non-executive director, Age 61.

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

Other current directorships of listed entities
Non-executive director of bio-pharmaceutical company Anadis Ltd (director since 1994).

Former directorships of listed entities in last 3 years
None.

Special Responsibilities
Chairman of research committee.
Member of audit & risk management committee.

Interests in shares and options
1,635,608 ordinary shares in Starpharma Holdings Limited

Company Secretary

The Company Secretary is Mr Ben Rogers. Age 59. He has extensive experience in finance, corporate governance and HR management with CSIRO research laboratories in Victoria, South Australia and Western Australia. He also operated his own consulting business providing services to Co-operative Research Centres and CSIRO Divisions. Mr Rogers was a member of Starpharma's start-up/IPO management team and has been Company Secretary since February 1998, with responsibilities that include the role of Chief Financial Officer. Mr Rogers is an affiliate of Chartered Secretaries Australia.

Meetings of Directors

The number of meetings of the Company's Board of directors and of each committee held during the year ended 30 June 2007, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meetings of committees					
			Audit & risk management		Remuneration & nomination		Research	
	A	B	A	B	A	B	A	B
P T Bartels	9	9	*	*	3	3	*	*
P M Colman	7	9	*	*	*	*	4	4
R Dobinson	8	9	2	2	3	3	*	*
J Fairley	9	9	*	*			4	4
L Gorr	8	9	2	2	2	3	*	*
R Hazleton	4	4	*	*	*	*	*	*
P J Jenkins	8	9	2	2	*	*	4	4
J W Raff	9	9	*	*	*	*	*	*

Key

A = Number of meetings attended

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

* = Not a member of the relevant committee.

Retirement, election and continuation in office of Directors

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

Dr Peter Jenkins retires by rotation as director at the annual general meeting and, being eligible, offers himself for re-election.

Mr Richard Hazleton was appointed a director on 1 December 2006. In accordance with the Constitution Mr Hazleton retires as a director at the annual general meeting and, being eligible, offers himself for re-election.

Remuneration report

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

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

The information provided under headings A–D includes remuneration disclosures that are required under AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited. The disclosures in Section E are additional disclosures required by the *Corporations Act 2001* and the *Corporations Regulations 2001* which have not been audited.

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

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

Directors' fees

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees consist of a base yearly amount plus additional amounts for membership of board committees or membership of boards of associated entities. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration. Non-executive directors do not receive share options or bonuses.

Non-executive directors' fees are reviewed annually by the Board, but have not been increased since 1 January 2004. Fees and payments are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The aggregate amount currently stands at $450,000 which was approved by shareholders on 15 November 2006. This amount (or some part of it) is to be divided among the non-executive directors as determined by the Board. The aggregate amount currently paid to non-executive directors is $320,000 per annum.

Non-executive directors do not receive any performance-related remuneration.

Executive pay

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

The executive pay and reward framework comprises:

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

Factors taken into account in determining remuneration packages include demonstrated record of performance against targets and key performance indicators (KPIs), internal relativities, data from a national biotechnology salary survey and the Company's ability to pay. Service agreements for executives do not include pre-determined bonus or option allocations, but bonuses may be awarded, or options offered at the end of the performance review cycle for specific contributions, or upon achievement of a significant Company milestone at the discretion of the Board and in line with the principles disclosed in the directors' report. There are no guaranteed base pay increases in any executives' contracts.

Starpharma Employee Share Option Plan

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

Performance review and development

Executives and all other staff participate in a formal two stage performance review and development process consisting of an objectives planning and development session at the commencement of the annual cycle and a performance and pay review towards the end of the cycle.

B. Details of remuneration – audited

Details of the nature and amount of each element of the remuneration of each director of Starpharma Holdings Limited and the key management personnel (as defined in AASB 124 Related Party Disclosures) of the Company and the consolidated entity are set out in the following tables.

The key management personnel of Starpharma Holdings Limited includes the directors as per pages 21 to 23.

The key management personnel of Starpharma Holdings Limited Group includes the directors as per pages 21 to 23. above and the following executive officers, which includes the five highest paid executives of the entity:

N J Baade	Financial Controller
C P Barrett	VP, Business Development
R I Berry	President Dendritic Nanotechnologies, Inc
J K Fairley	CEO
O T Grogan	VP, Commercial Development & Licensing (until 12 Jan 2007)
G Y Krippner	Head of Chemistry (until 8 December 2006)
T D McCarthy	VP, Drug Development (until 17 November 2006)
D J Owen	VP, Research (from 15 Feb 2006)
J R Paull	VP, Development and Regulatory Affairs
B P Rogers	Company Secretary and CFO

Directors and Key management personnel of Starpharma Holdings Limited

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

All performance related remuneration, including cash bonuses and options granted are at risk.
1 R Hazleton was appointed non-executive director on 1 December 2006.
2 J W Raff retired as CEO on 1 July 2006 and was appointed Deputy Chairman. $40,000 contributed to J W Raff's superannuation was his Director's remuneration. He was paid $60,627 on retirement for accrued long service leave entitlements.
3 J K Fairley was appointed CEO and Executive Director on 1 July 2006.

B. Details of remuneration – audited (continued)

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

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

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

B. Details of remuneration – audited (continued)

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

2006	Short-term benefits			Post-employment	Share-based payment	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Superannuation $	Options $	**Total $**
Non-executive directors						
P T Bartels Chairman	–	–		80,000	–	**80,000**
P M Colman	36,697	–		3,303	–	**40,000**
R Dobinson	40,000	–		–	–	**40,000**
L Gorr	36,697	–		3,303	–	**40,000**
P J Jenkins	36,697	–		3,303	–	**40,000**
Subtotal non-executive directors	150,091			89,909		**240,000**
Executive directors						
J W Raff	258,500	–	110,420	96,215 [A]	–	**465,135**
Other Key Management Personnel						
J K Fairley [1] (from 4/7/05–30/6/06)	233,776	24,000	4,552	38,340 [B]	21,602	**322,270**
O T Grogan	163,749	–	26,881	28,648	11,962	**231,240**
B P Rogers	106,681	10,000	34,225	20,991	41,170	**213,067**
T D McCarthy	119,882	10,000	27,700	32,019 [C]	18,714	**208,315**
G Y Krippner	103,872	–	25,030	11,187	37,427	**177,516**
J R Paull	113,088	10,000	4,602	29,411 [D]	14,971	**172,072**
C P Barrett [2] (from 18/7/05–30/6/06)	102,361	–	–	11,832	7,494	**121,687**
N J Baade [3] (from 16/1/06–30/6/06)	43,162	–	1,860	7,155	–	**52,177**
Totals	1,395,162	54,000	235,270	365,707	153,340	**2,203,479**

There were no retirement benefits paid during the year ended 30 June 2006.

A $49,983 of $96,215 contributed to J W Raff's superannuation was the result of a bonus.
B $15,000 of $38,340 contributed to J K Fairley's superannuation was the result of a bonus.
C $10,000 of $32,019 contributed to T D McCarthy's superannuation was the result of a bonus.
D $10,000 of $29,411 contributed to J R Paull's superannuation was the result of a bonus.
1 J K Fairley was appointed Chief Operating Officer on 4 July 2005.
2 C P Barrett was apponted VP, Business Development on 18 July 2005.
3 N J Baade was appointed Financial Controller on 16 January 2006.

C. Service Agreements – audited

Remuneration and other terms of employment for the CEO and the specified executives are formalised in service agreements. Each of these agreements provides for the provision of performance-related cash bonuses, and other benefits including participation, when eligible, in the Starpharma Holdings Employee Option Plan. Other major provisions of the agreements relating to remuneration are set out below.

J K Fairley Chief Executive Officer

- No fixed term of agreement
- Base salary, inclusive of superannuation, per annum as at 30 June 2007 of $350,000, to be reviewed annually by the remuneration committee.
- Fringe benefits – on-site car parking
- Subject to termination at any time by:
  - (i) the Executive giving to the Company twelve months' notice in writing; or
  - (ii) the Company giving to the Executive six months' notice in writing.
    If the Company gives notice in accordance with this clause, the Executive will be entitled to a termination payment upon the expiration of the notice period, of an amount equal to 6 months' total remuneration.
- The Executive's employment may be terminated by the Company at any time without notice if the Executive:
  - (i) is guilty of serious misconduct;
  - (ii) becomes unable to pay the Executive's debts as they become due; or
  - (iii) is found guilty be a court of a criminal offence.

R I Berry President and CEO – Dendritic Nanotechnologies, Inc

- No fixed term of agreement.
- Minimum annual base salary, at 30 June 2007 of US$175,000.
- Subject to termination by the Company without cause by giving the Executive 30 days notice, in which case the Executive shall be entitled to payment of salary for six months.
- Subject to termination by the Executive giving the Company 90 days written notice.
- Subject to termination by the Company for serious breach of obligations to the Company or conviction of a felony involving moral turpitude, other criminal acts or illegal acts that are injuries to the Company, in which case the Executive shall receive salary and benefits including unused vacation through to the effective date of such termination, and no severance amount or termination payments or benefits of any nature.

B P Rogers Company Secretary and Chief Financial Officer

- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 30 June 2007 of $157,295, to be reviewed annually by the remuneration committee.
- Fringe benefits – on-site car parking.
- Payment of termination benefit on termination by the employer, other than for serious breach of obligations to the employer, wilful neglect of duty or serious misconduct, equal to thirteen weeks gross remuneration.

J R Paull VP – Regulatory and Clinical Affairs

- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 30 June 2007 of $175,000, to be reviewed annually by the remuneration committee.
- Subject to termination at any time by:
  - (i) the Executive giving to the Company not less than three months written notice; or
  - (ii) the Company giving to the Executive written notice, or payment in lieu of that notice, which notice period shall be 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 2007 of $150,000, to be reviewed annually by the remuneration committee.
- Subject to termination at any time by:
  - (i) the Executive giving to the Company not less than 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 2007 of $135,000, to be reviewed annually by the remuneration committee.
- Subject to termination at any time by:
  - (i) the Executive giving to the Company not less than three months written notice; or
  - (ii) the Company giving to the Executive written notice, or payment in lieu of that notice, which notice period shall be three months.
- The Executive's employment may be terminated by the Company at any time without notice for serious breach of obligations to the employer, wilful neglect of duty, serious misconduct or bankruptcy.

C. Service Agreements – audited (continued)

N J Baade Financial Controller
- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 30 June 2007 of $140,000, to be reviewed annually by the remuneration committee.
- Subject to termination at any time by:
  (i) the Executive giving to the Company not less than two months written notice; or
  (ii) the Company giving to the Executive written notice, or payment in lieu of that notice, which notice period shall be four months.
- The Executive's employment may be terminated by the Company at any time without notice for serious breach of obligations to the employer, wilful neglect of duty, serious misconduct or bankruptcy.

O T Grogan VP – Commercial Development & Licensing
(from 1 July 2006 – 12 January 2007)
- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 12 January 2007 of $214,675, to be reviewed annually by the remuneration committee.
- Fringe benefits – on-site car parking.
- Payment of termination benefit on termination by the employer, other than for serious breach of obligations to the employer, wilful neglect of duty or serious misconduct, equal to thirteen weeks gross remuneration.

G Y Krippner Head of Chemistry
(from 1 July 2006 – 8 December 2006)
- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 8 December 2006 of $145,000, to be reviewed annually by the remuneration committee.
- Fringe benefits – on-site car parking.
- Payment of termination benefit on termination by the employer, other than for serious breach of obligations to the employer, wilful neglect of duty or serious misconduct, equal to thirteen weeks gross remuneration.

T D McCarthy VP – Drug Development
(from 1 July 2006 – 17 November 2006)
- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 17 November 2006 of $180,000, to be reviewed annually by the remuneration committee.
- Fringe benefits – on-site car parking.
- Payment of termination benefit on termination by the employer, other than for serious breach of obligations to the employer, wilful neglect of duty or serious misconduct, equal to thirteen weeks gross remuneration.

D. Share-based compensation – audited

Options are granted under the Starpharma Holdings Limited Employee Share Option Plan (ASX code SPLAM) ("the Plan") which was approved by shareholders at the 2004 annual general meeting. All employees of the Company or associated companies are eligible to participate in the plan. Options are granted under the plan for no consideration. Options are usually granted for a three to five year period and become exercisable on the second anniversary of the date of grant. The terms and conditions of each grant of options affecting remuneration of each director of the company and the key management personnel of the group in this or future reporting periods are as follows:

Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
8 February 2004	8 February 2009	$0.9375	$0.4648	9 February 2006
4 July 2005	4 July 2010	$0.9375	$0.1456	5 July 2007
18 July 2005	18 July 2010	$0.9375	$0.1574	19 July 2007
6 October 2006	6 October 2010	$0.5013	$0.2393	6 October 2008
17 November 2006	30 June 2009	$0.4508	$0.2044	1 July 2007
4 April 2007	4 April 2011	$0.5013	$0.1426	4 April 2009

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

When exercisable, each option is convertible into one ordinary share of the Company to be allotted not more than ten business days after exercise.

The weighted average remaining contractual life of share options outstanding at the end of the period was 2.78 years (2006: 2.65 years).

Fair value of options granted
The weighted average assessed fair value at grant date of options granted during the year ended 30 June 2007 was $0.21 per option (2006: $0.15). The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option.

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

Options are granted for no consideration, have a three to five year life and become exercisable on the first or second anniversary of the date of grant.

D. Share-based compensation – audited (continued)

Options granted to each director of the company and the key management personnel of the group during the year ended 30 June 2007 and the prior year were:

	2006				2007
Options granted on:	**4 July 2005**	**18 July 2005**	**6 October 2006**	**17 November 2006**	**4 April 2007**
Number of options granted	300,000	100,000	700,000	500,000	550,000
Expiry date	4 July 2010	18 July 2010	6 October 2010	4 April 2011	4 April 2011
Exercise price	$0.9375	$0.9375	$0.5013	$0.4508	$0.5035
Expected price volatility of the company's shares	46.9%	46.9%	42.5%	44.0%	38.8%
Risk-free interest rate	5.2%	5.2%	5.5%	5.5%	6.2%
Expected dividend yield	–	–	–	–	–
Share price at grant date	$0.5000	$0.5200	$0.5500	$0.4500	$0.4300
Assessed fair value	$0.1456	$0.1574	$0.2393	$0.2044	$0.1426

Shares issues on the exercise of options

No shares in Starpharma Holdings Limited have been issued on the exercise of options in either the current or prior year.

Share options granted to directors and key management personnel

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

	Number of options granted during the year		Number of options vested during the year	
Name	**2007**	**2006**	**2007**	**2006**
N J Baade	**100,000**	100,000	**–**	–
C P Barrett	**200,000**	100,000	**–**	–
J K Fairley	**500,000**	300,000	**–**	–
O T Grogan	**–**	–	**–**	–
G Y Krippner	**100,000**	–	**–**	200,000
T D McCarthy	**–**	–	**–**	100,000
J R Paull	**200,000**	–	**–**	80,000
B P Rogers	**200,000**	–	**–**	220,000

D. Share-based compensation – audited (continued)

The options were granted under the Starpharma Holdings Limited Employee Share Option Plan on the dates indicated. Details of options granted to the directors and the five most highly remunerated officers of the Group can be found in section D of the remuneration report on page 30. No options have been granted to directors or key management personnel since the end of the year.

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

Two tranches of Employee Share Options as set out below were offered to Dr J K Fairley subject to shareholder approval at the next Annual General Meeting of the Company. The options were offered on 4 April 2007 and 8 August 2007.

The options will be granted in accordance with the terms of the Company's Employee Share Option Plan and will include the following terms and conditions:

- *Issue price:* nil.
- *Exercise price:* 50.35 cents per share
- *150,000 Options:* Exercise period: From 4 April 2009 to 4 April 2011.
- *200,000 Options:* Exercise period: From 8 August 2009 to 8 August 2011.

E. Additional Information – unaudited

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

Policies are structured to reward performance that could reasonably be expected to increase shareholder value, and the performance of the Company over the current and prior year is taken into account in determining overall levels of executive reward. As the company is in a research and development phase and is not generating significant earnings, service agreements for executives do not include pre-determined bonus or share option allocations. Bonuses may be awarded or options offered for outstanding performance that contributes to achievement of specific milestones. Further details of the company's remuneration policy are set out in Section A of the Remuneration Report on page 25.

Further details relating to options are set out below.

Name	**A** Remuneration consisting of options	**B** Value at grant date $	**C** Value at exercise date $	**D** Value at lapse date $	**E** **Total of columns B to D $**
N J Baade	6.5%	38,191	–	–	**38,191**
C P Barrett	10.8%	38,191	–	–	**38,191**
R I Berry	11.6%	59,836	–	–	**59,836**
J K Fairley	25.9%	102,203	–	–	**102,203**
O T Grogan	(0.3%)	–	–	–	**–**
G Y Krippner	(0.5%)	23,934	–	–	**23,934**
T D McCarthy	–	–	–	–	**–**
D J Owen	6.7%	28,513	–	–	**28,513**
J R Paull	7.4%	43,030	–	–	**43,030**
B P Rogers	5.9%	38,191	–	–	**38,191**

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

E. Additional Information – unaudited (continued)

Details of remunerations: cash bonuses and options

For each cash bonus and grant of options included in the tables on pages 26 to 32, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses is payable in future years.

The options vest over the specified periods providing vesting criteria are met. No options will vest if the conditions are not satisfied, hence at 30 June 2007 the minimum value of the options yet to vest is nil. The maximum value of the options yet to vest has been determined assuming all conditions are met.

	Cash bonus		Options					
Name	Paid %	Forfeited %	Year Granted	Vested %	Forfeited %	Financial years in which options may vest	Minimum total value of grant yet to vest	Maximum total value of grant yet to vest
N J Baade	100	–	2007	–	–	2009	nil	27,752
C P Barrett	–	–	2006	–	–	30/06/2008	nil	409
			2007	–	–	30/06/2009	nil	27,752
R I Berry	–	–	2007	–	–	30/06/2009	nil	37,981
J K Fairley	–	–	2006		–	30/06/2008	nil	299
			2007		–	30/06/2008	nil	–
O T Grogan	–	–	2002	100	100	–	nil	nil
			2005	–	100	–	nil	nil
G Y Krippner	–	–	2004	–	100	–	nil	nil
			2007	–	100	–		
T D McCarthy	–	–	2002	100	100	–	nil	nil
			2004	–	100	–	nil	nil
D J Owen			2007	–	–	30/06/2009	nil	25,120
J R Paull	–	–	2004	100	–	30/06/2006	nil	–
		–	2007	–	–	30/06/2009	nil	29,068
B P Rogers	–	–	2004	100	–	–	nil	–
			–	–	–	30/06/2009	nil	27,752

Shares under option

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

Date options granted	Expiry date	Issue price of shares	Number under option
6 February 2004	31 December 2008	$0.7300	200,000
8 February 2004	8 February 2009	$0.9375	410,000
31 December 2004	31 December 2009	$0.9375	147,000
4 July 2005	4 July 2010	$0.9375	300,000
18 July 2005	18 July 2010	$0.9375	100,000
17 November 2006	30 June 2009	$0.4508	500,000
6 October 2006	6 October 2010	$0.5035	1,194,000
2 January 2007	2 January 2009	$0.5200	45,000
2 January 2007	2 January 2011	$0.5200	20,000
4 April 2007	4 April 2011	$0.5035	590,000
21 August 2007	21 August 2012	$0.4346	7,567,119
		Total:	**11,073,119**

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

Insurance of officers

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

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

Audit & non audit services

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

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

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

- all non-audit services have been reviewed by the audit & risk management 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:

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

Assurance Services	2007 $	2006 $
Audit or review of financial reports of the entity or any entity in the consolidated entity under the *Corporations Act 2001*	**107,000**	114,990
Other assurance services:– Grant reviews & program audits	**57,500**	7,500
Audits performed by other auditors of controlled entities:	**26,859**	–

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 35.

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
26th September 2007
Melbourne

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Auditor's Independence Declaration

As lead auditor for the audit of Starpharma Holdings Limited for the year ended 30 June 2007, 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.

SC Bannatyne
Partner
PricewaterhouseCoopers

Melbourne
26 September 2007

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 ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations ("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 these practices, unless otherwise stated, were in place for the entire year. This corporate governance statement is available on the Company's website.

1. The Board of Directors

The relationship between the Board and senior management is critical to the Group's long term success. The directors are responsible to the shareholders for the performance of the Group in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are delegated by the Board to the Chief Executive Officer ("CEO") and senior executives. These delegations are reviewed on an annual basis.

1.1 Board charter

The Board of Starpharma Holdings Limited operates in accordance with the charter set out below.

1.1.1 Board Composition

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

1.1.2 Responsibilities

The responsibilities of the Board include:

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

1.2 Board members

Details of the members of the Board, their experience, qualifications, term of office and independent status are set out in the directors' report under the heading "Information on Directors". There are seven non-executive directors, six of whom are deemed independent under the principles set out below, and one executive director at the date of signing the directors' report.

The Board seeks to ensure that:

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

1. The Board of Directors (continued)

1.3 Directors' independence

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

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

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

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

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

1.4 Term of office

The Company's Constitution requires that one third of non-executive directors (or if their number is not a multiple of three then the number nearest to one third) retire at every annual general meeting and be eligible for re-election.

1.5 Chairman and Chief Executive Officer (CEO)

The current Chairman Mr Peter Bartels is an independent non-executive director appointed in 2003. The CEO Dr Jackie Fairley was appointed as a director and CEO on 1 July 2006. The Chairman is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's senior executives. The CEO is responsible for implementing Company strategies and policies. The Board policy is for these separate roles to be undertaken by separate people.

1.6 Commitment

The Board held nine meetings during the year. Meetings are held at the Company's corporate offices and laboratory facility in the Baker Building, 75 Commercial Road, Melbourne, Australia. Mr Richard Hazleton, a US resident director, has attended four meetings since his appointment on 1 December 2006. Of these meetings Mr Hazleton attended one in person and the other three by telephone conference. The number of meeting of the Board and of each Board committee held during the year ended 30 June 2007, and the number of meetings attended by each director is disclosed in the Directors' Report. The commitments of non-executive directors are considered by the remuneration and nomination committee prior to their appointment to the Board and are reviewed each year as part of the annual performance assessment. Prior to appointment or being submitted for re-election each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

1.7 Conflict of interests

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

1.8 Independent professional advice

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

1.9 Performance assessment

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

2. Corporate reporting

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

The CEO and the CFO have made the following certifications to the Board:

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

3. Board committees

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

3.1 Audit and risk management committee

The audit and risk management committee consists of the following independent non-executive directors:

Mr Ross Dobinson (Chairman)
Mr Leon Gorr
Dr Peter Jenkins

Details of these directors' qualifications and attendance at committee meetings are set out in the directors' report pages 21 to 24.

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

The committee meets at least twice a year, and has direct access to the Company's auditors. The charter of this committee is to:

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

– receives regular reports from management and the external auditors;
– meets with the external auditors twice a year, or more frequently if necessary;
– 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 management committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

3. Board committees (continued)

3.2 Remuneration and nomination committee

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

Mr Ross Dobinson (Chairman)
Mr Peter Bartels
Mr Leon Gorr

Details of these directors' attendance at committee meetings are set out in the directors' report on page 24.

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

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

Each member of the senior executive team has signed a formal employment contract covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. Each contract refers to a specific formal position description.

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

The Remuneration Report is set out on pages 25 to 33.

3.3 Research committee

The research committee consists of the following directors:

Dr Peter Jenkins (Chairman)
Independent non-executive director

Prof Peter Colman
Independent non-executive director

Dr Jackie Fairley
Chief Executive Officer and director

The charter of the research committee is:
- to ensure that the Board is kept fully informed of developments relating to the Company's research activities and development progress against milestones; and
- to advise the Board on scientific matters in relation to the Company's continuous disclosure obligations under the ASX Listing Rules.

4. External auditors

The Company's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually. The current auditors are PricewaterhouseCoopers who have been the external auditors of the Company since it commenced operations. It is PricewaterhouseCoopers policy to rotate audit engagement partners on listed companies at least every five years, and the current audit engagement partner assumed responsibility for the conduct of the audit in 2005.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in note 29 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit and risk management committee.

The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

5. Risk assessment and management

The Board, through the audit and risk management 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 Board is committed to a proactive approach in managing material business risks, and aims to ensure that effective risk management practices are a key element of the Company's culture. Health and Safety (see item 6) are considered to be of paramount importance and are the focus of significant risk management activities within the company. Other risk areas that are addressed include business continuity and disaster recovery, reputation, intellectual property, product development and clinical trials.

Adherence to the Code of Conduct (see item 7) is required at all times and the board actively promotes a culture of quality and integrity.

The risk management policy, which is available on the Company website, sets out the responsibilities and authorities of the Board, the audit and risk management committee, the CEO and Company Secretary, and the senior management team. The Company Secretary is responsible to the Board for the overall implementation of the risk management program.

6. The environment, occupational health and safety

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

The Company has adopted an Occupational Health and Safety (OH&S) Policy and has established OH&S committees at each of its sites as part of its overall approach to workplace safety. The committees meets monthly to review 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.

7. Code of conduct

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

8. Trading in Company securities

The purchase and sale of Company securities by directors, executives and employees is only permitted (subject also to complying with applicable laws) during the thirty day period following the annual general meeting and the release to the market of the half yearly and annual financial results, unless prior approval is given to each transaction by the Chairman.

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

(a) securities in the Company which are subject to a restriction on disposal under an employee share or incentive plan; or

(b) options or performance rights (or any unvested securities in the Company underlying them).

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

9. Continuous disclosure and shareholder communication

The Board has appointed the Company Secretary as the person responsible for disclosure of information to the ASX Limited. This role includes responsibility for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public. Procedures have been established for reviewing whether there is any price sensitive information that should be disclosed to the market, or whether any price sensitive information may have been inadvertently disclosed.

All ASX announcements are posted on the Company's website as soon as practicable after release to the ASX. Announcements are also posted on the OTCQX website (www.otcqx.com) in order to provide timely disclosure to US investors trading in the Company's Level One ADRs (OTCQX:SPHRY).

ANNUAL FINANCIAL REPORT

30 June 2007

Contents

Income statements	**42**
Balance sheets	**43**
Statements of changes in equity	**44**
Cash flow statements	**45**
Notes to the financial statements	**46**
Directors' declaration	**79**
Independent audit report to the members	**80**

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

Starpharma Holdings Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

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

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations on pages 2–18 and in the directors' report on pages 19–34, both of which are not part of the financial report.

The financial report was authorised for issue by the directors on 26th September 2007. The company has the power to amend and reissue the financial report.

Income statements

For the year ended 30 June 2007

		Consolidated		Parent	
	Notes	**2007 $**	2006 $	**2007 $**	2006 $
Revenue from continuing operations	5	**1,462,771**	571,837	**580,687**	526,606
Other income	5	**8,090,536**	6,422,066	**–**	–
Administration expense		**(5,325,403)**	(3,906,186)	**(1,899,381)**	(2,037,530)
Research and development expense		**(11,983,590)**	(9,945,396)	**–**	–
Provision for impairment of investment	10	**–**	–	**(4,443,060)**	(7,996,332)
Finance costs		**(32,738)**	(23,285)	**–**	–
Share of results of associates accounted for using the equity method	33	**(178,446)**	(641,825)	**–**	–
Loss before income tax	6	**(7,966,870)**	(7,522,789)	**(5,761,754)**	(9,507,256)
Income tax credit	7	**721,874**	–	**–**	–
Loss for the year		**(7,244,996)**	(7,522,789)	**(5,761,754)**	(9,507,256)
Loss attributable to minority interests		**–**	–	**–**	–
Loss attributable to members of Starpharma Holdings Limited		**(7,244,996)**	(7,522,789)	**(5,761,754)**	(9,507,256)
Loss per share for loss from continuing operations attributable to ordinary equity holders of the company					
Basic loss per share	37	**($0.04)**	($0.06)		
Diluted loss per share		**($0.04)**	($0.06)		

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

Balance Sheets

As at 30 June 2007

	Notes	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Current Assets					
Cash and cash equivalents	8	**10,072,893**	14,283,824	**5,584,431**	12,361,134
Trade and other receivables	9	**1,334,725**	2,824,267	**1,436,423**	94,292
Total current assets		**11,407,618**	17,108,091	**7,020,854**	12,455,426
Non-current assets					
Property, plant and equipment	11	**1,110,801**	1,431,124	**–**	–
Intangible assets	12	**17,785,573**	4,086,538	**3,688,680**	4,086,538
Investments accounted for using the equity method	13	**76,286**	2,387,312	**–**	–
Deferred tax assets	14	**43,201**	–	**–**	–
Other financial assets	15	**–**	–	**16,291,538**	5,208,750
Total non-current assets		**19,015,861**	7,904,974	**19,980,218**	9,295,288
Total assets		**30,423,479**	25,013,065	**27,001,072**	21,750,714
Current Liabilities					
Trade and other payables	16	**1,854,515**	1,897,819	**1,369,731**	1,484,154
Borrowings	17	**68,587**	142,092	**–**	–
Provisions	18	**356,463**	331,447	**–**	–
Deferred income	19	**980,161**	661,337	**–**	–
Total current liabilities		**3,259,726**	3,032,695	**1,369,731**	1,484,154
Non-current liabilities					
Borrowings	20	**260,147**	315,412	**–**	–
Provisions	21	**57,257**	107,630	**–**	–
Deferred income	22	**168,946**	241,342	**–**	–
Deferred tax liabilities	23	**953,373**	–	**–**	–
Total non-current liabilities		**1,439,723**	664,384	**–**	–
Total liabilities		**4,699,449**	3,697,079	**1,369,731**	1,484,154
Net assets		**25,724,030**	21,315,986	**25,631,341**	20,266,560
Equity					
Contributed equity	24	**76,226,627**	65,375,467	**76,226,627**	65,375,467
Reserves	25	**1,299,253**	497,374	**697,213**	421,838
Accumulated losses	26	**(51,801,850)**	(44,556,855)	**(51,292,499)**	(45,530,745)
Total equity		**25,724,030**	21,315,986	**25,631,341**	20,266,560

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

Statements of changes in equity

For the year ended 30 June 2007

		Consolidated		Parent	
	Notes	**2007 $**	2006 $	**2007 $**	2006 $
Total equity at the beginning of the year		**21,315,986**	9,965,965	**20,266,560**	11,017,082
Exchange differences on translation of foreign operations	25	**(1,688,014)**	116,075	**–**	–
Revaluation of identifiable net assets of an associate on acquisition of remaining assets	25	**2,214,519**	–	**–**	–
Net income recognised directly in equity		**526,505**	116,075	**–**	–
Loss for the year		**(7,244,996)**	(7,522,789)	**(5,761,754)**	(9,507,256)
Total recognised income and expense for the year		**(6,718,491)**	(7,406,714)	**(5,761,754)**	(9,507,256)
Transactions with equity holders in their capacity as equity holders:					
Share based payments	25	**275,374**	203,223	**275,374**	203,223
Contributions of equity, net of transaction costs	24	**10,851,160**	18,553,512	**10,851,160**	18,553,512
Total equity at the end of the year		**25,724,029**	21,315,986	**25,631,340**	20,266,560

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

Cash flow Statements

For the year ended 30 June 2007

		Consolidated		Parent	
	Notes	**2007 $**	2006 $	**2007 $**	2006 $
Cash flow from operating activities					
Receipts from trade and other debtors		**1,042,324**	110	**–**	–
Grant income (inclusive of GST)		**10,567,298**	4,360,527	**–**	–
Payments to suppliers and employees (inclusive of GST)		**(15,591,264)**	(12,405,980)	**(1,462,830)**	(1,046,208)
Interest received		**636,152**	574,151	**544,904**	538,295
Interest paid		**(34,704)**	(18,756)	**–**	–
Net cash outflows from operating activities	35	**(3,380,194)**	(7,489,948)	**(917,926)**	(507,913)
Cash flow from investing activities					
Loans advanced to subsidiaries		**–**	–	**(5,597,031)**	(7,683,238)
Loans advanced from subsidiaries		**–**	–	**–**	50,129
Receipts from property, plant and equipment		**1,010**	25,904	**–**	–
Payments for property, plant and equipment		**(182,185)**	(463,184)	**–**	–
Payments for transaction costs on acquisition of subsidiary (net of cash acquired)	27	**(90,986)**	–	**(231,630)**	–
Net cash outflows from investing activities		**(272,161)**	(437,280)	**(5,828,661)**	(7,633,109)
Cash flow from financing activities					
Proceeds from issue of shares		**–**	14,990,045	**–**	14,990,045
Share issue transaction costs		**–**	(810,413)	**–**	(810,413)
Lease repayments		**(126,739)**	(134,839)	**–**	–
Net cash inflows / (outflows) from financing activities		**(126,739)**	14,044,793	**–**	14,179,632
Net increase / (decrease) in cash and cash equivalents held		**(3,779,094)**	6,117,565	**(6,746,587)**	6,038,610
Cash and cash equivalents at the beginning of the period		**14,283,824**	8,166,259	**12,361,134**	6,322,524
Effects of exchange rate changes on cash and cash equivalents		**(431,837)**	–	**(30,116)**	–
Cash and cash equivalents at the end of the period		**10,072,893**	14,283,824	**5,584,431**	12,361,134

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

Notes to the financial statements

30 June 2007

Contents

		Page
1.	Summary of significant accounting policies	**47**
2.	Financial Risk Management	**52**
3.	Critical accounting estimates and judgments	**53**
4.	Segment information	**53**
5.	Revenue	**54**
6.	Expenses	**54**
7.	Income tax expense	**55**
8.	Current assets – Cash and cash equivalents	**56**
9.	Current assets – Trade and other receivables	**58**
10.	Non-current assets – Receivables	**58**
11.	Non-current assets – Property, plant and equipment	**59**
12.	Non-current assets – Intangible assets	**59**
13.	Non-current assets – Investments accounted for using the equity method	**61**
14.	Non-current assets – Deferred tax assets	**61**
15.	Non-current assets – Other financial assets	**62**
16.	Current liabilities – Trade and other payables	**62**
17.	Current liabilities – Borrowings	**62**
18.	Current liabilities – Provisions	**62**
19.	Current liabilities – Deferred Income	**62**
20.	Non-current liabilities – Borrowings	**63**
21.	Non-current liabilities – Provisions	**63**
22.	Non-current liabilities – Deferred Income	**63**
23.	Non-current liabilities – Deferred tax liabilities	**64**
24.	Contributed equity	**64**
25.	Reserves	**65**
26.	Accumulated Losses	**65**
27.	Business Combination	**66**
28.	Key management personnel disclosures	**67**
29.	Remuneration of auditors	**71**
30.	Contingencies	**71**
31.	Commitments	**71**
32.	Subsidiaries	**73**
33.	Investments in associates	**74**
34.	Events occurring after the balance sheet date	**75**
35.	Reconciliation of profit after income tax to net cash inflow from operating activities	**75**
36.	Non–cash financing activities	**75**
37.	Earnings per share	**76**
38.	Share-based payments	**76**
39.	Related party transactions	**78**

1. Summary of significant accounting policies

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

(a) Basis of preparation

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

Compliance with International Financial Reporting Standards ("IFRS")

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the consolidated financial statements and notes of Starpharma Holdings Limited under AIFRS comply with IFRS. The parent entity financial statements and notes also comply with IFRS, except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure.*

Early adoption of standards

The Group has elected to apply the following pronouncement to the annual reporting period beginning 1 July 2006:

Revised AASB101 *Presentation of Financial Statements* (issued October 2006)

This includes applying the pronouncement to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.* No adjustments to any of the financial statements were required for the above pronouncement, but certain disclosures are no longer required and have therefore been omitted.

Historical cost convention

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

Critical accounting estimates

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

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Starpharma Holdings Limited ("company" or "parent company") as at 30 June 2007 and the results of all subsidiaries for the year then ended. Starpharma Holdings Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

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

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

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

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

(ii) Associates

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

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

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

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

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different to those of segments operating in other economic environments.

1. Summary of significant accounting policies (continued)

(d) Foreign currency translation

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

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

(iii) Group companies
Assets and liabilities of subsidiary entities are translated into Australian currency at rates of exchange current at balance date, while their incomes and expenses are translated at the average of rates during the year. Exchange differences arising on translation are taken to the foreign currency translation reserve in equity.

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

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

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

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

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

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

(g) Income Tax
The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

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

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

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

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

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

(h) Leases
Leases of plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases (note 31). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 31). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease term.

Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

1. Summary of significant accounting policies (continued)

(i) Business combinations

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

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

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

(j) Impairment of assets

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

(k) Cash and cash equivalents

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

(l) Trade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(m) Investments and other financial assets

The Group classifies its investments 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.

(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 arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after balance sheet date, which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (notes 9 and 10).

(n) Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or disclosure purposes.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. 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.

(o) Property, Plant and Equipment

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

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

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

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

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

1. Summary of significant accounting policies (continued)

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

(p) Leasehold improvements

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

(q) Intangible Assets

(i) Goodwill

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

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

(ii) Patents and licences

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

(iii) Research and development

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

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

(r) Trade and other payables

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

(s) Borrowings

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

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

(t) Provisions

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

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

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

(u) Employee benefits

(i) Wages and salaries and annual leave

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

(ii) Long service leave

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

1. Summary of significant accounting policies (continued)

(iii) Superannuation

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

(iv) Employee benefits on-costs

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

(v) Share-based payments

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

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

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

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

(vi) Bonus payments

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

(v) Contributed equity

Ordinary shares are classified as equity.

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

(w) Dividends

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

(x) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

(y) Goods and Services Tax ("GST')

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

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

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

1. Summary of significant accounting policies (continued)

(z) New accounting standards and interpretations

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

Certain new accounting standards have been published that are not mandatory for 30 June 2007 reporting periods. The Group's assessment of the impact of these new standards and interpretations is only relevant to the below:

Revised AASB 101 *Presentation of Financial Statements*

A revised AASB 101 was issued in October 2006 and is applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standard early. Application of the revised standard will not have any impact on the Group's financial statements.

AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments* and AASB 2007-7 *Amendments to Australian Accounting Standards* [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]

AASB 2007-4 is applicable to annual reporting periods beginning on or after 1 July 2007. The Group does not intend to apply any of the new options now available. As a consequence, application of the revised standards will not affect any of the amounts recognised in the financial statements, but it may remove some of the disclosures that are currently required. In relation to the discount rates used in the measurement of employee benefit obligations, the Group has not yet reached a conclusion as to whether there is a deep market in corporate bonds in Australia and hence has not yet determined the financial effect, if any, on the obligations from the adoption of AASB 2007-4. This is not expected to be material for the Group.

AASB 2007-7 *Amendments to Australian Accounting Standards* [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]

AASB 2007-7 amendments to AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 and AASB 128 are applicable to annual reporting periods beginning on or after 1 July 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the Group's financial statements.

2. Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, fair value, interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate 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 and company secretary, under the guidance of the board, have responsibility for the risk management program.

(a) Market 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. The directors are regularly monitoring the potential impact of movements in foreign exchange exposure.

(b) Credit risk

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

(c) Liquidity risk

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

(d) Cash flow interest rate risk

As the company has interest-bearing assets, the company's income and operating cash flows are subject to changes in market interest rates. The company uses fixed rate term deposits with maturities of no greater than three months.

3. Critical accounting estimates and judgments

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

(a) Critical accounting estimates and assumptions

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

i) Amortisation of finite life intangible assets

The Group's management determines the estimated life of the patents underlying the core technology of the business and calculates amortisation accordingly. The estimate is based on the period of expected benefit which currently stands at 4–15 years. This could change as a result of technical innovations or competitor actions in response to severe industry cycles. Management will increase amortisation charges when the useful lives are less than previously estimated lives. The carrying value of intangible assets at 30 June 2007 is $17,785,573 (2006: $4,086,538).

ii) Impairment of Goodwill

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

iii) Income Taxes

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

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

(b) Critical accounting judgments in applying accounting policies

i) Fair value of intellectual property in purchase price allocation of subsidiary

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

ii) Impairment of Assets

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

4. Segment information

Business Segment

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

Geographic Segment

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

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

4. Segment information (continued)

Secondary reporting format-geographical segments

2007	Australia $	USA $	Inter-segment Eliminations $	Total $
Revenue and other income	8,362,199	1,246,346	(55,238)	9,553,307
Expenses	(13,992,334)	(3,404,635)	55,238	(17,341,731)
	(5,630,135)	(2,158,289)	–	(7,788,424)
Share of results of associates				(178,446)
Loss before income tax				(7,966,870)
Segment net assets	13,354,060	12,404,984	(35,014)	25,724,030

5. Revenue

	Consolidated		Parent	
Revenue and Other Income	**2007 $**	2006 $	**2007 $**	2006 $
Royalty, Customer & License revenue	**859,465**	–	**–**	–
Interest Revenue	**598,917**	571,337	**580,687**	526,606
Other Revenue	**4,389**	500	**–**	–
Total Revenue	**1,462,771**	571,837	**580,687**	526,606
Australian Government Grants	**276,278**	554,003	**–**	–
USA Government Grants	**7,814,258**	5,868,063	**–**	–
Total Other Income	**8,090,536**	6,422,066	**–**	–
Total Revenue/Other Income	**9,553,307**	6,993,903	**580,687**	526,606

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

6. Expenses

	Consolidated		Parent	
	2007 $	2006 $	**2007 $**	2006 $
Loss from ordinary activities before income tax expense includes the following items:				
Depreciation	**646,557**	434,596	**–**	–
Amortisation	**1,372,880**	530,736	**397,858**	287,342
Rental expense on operating leases	**440,566**	385,495	**–**	–

7. Income tax expense

	Notes	Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
a) Income tax expense (credit)					
Current Tax		**–**	–	**–**	–
Deferred Tax		**(721,874)**	–	**–**	–
Under (over) provision in prior years		**–**	–	**–**	–
		(721,874)	–	**–**	–
Income tax expense is attributable to:					
Profit from continuing operations		**(721,874)**	–	**–**	–
Profit from discontinued operations		**–**	–	**–**	–
Aggregate income credit		**(721,874)**	–	**–**	–
Deferred income tax (revenue) expense included in income tax expenses comprises:					
Decrease (increase) in deferred tax assets	14	**–**	–	**–**	–
(Decrease) increase in deferred tax liabilities	23	**(721,874)**	–	**–**	–
		(721,874)	–	**–**	–
b) Numerical reconciliation to income tax prima facie tax payable					
Loss from continuing operations before income tax		**(7,966,870)**	(7,522,789)	**(5,761,755)**	(9,507,256)
Tax at the Australian tax rate of 30%		**(2,390,061)**	(2,256,837)	**(1,728,527)**	(2,852,177)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income					
Professional and legal fees		**–**	(42,941)	**–**	(42,941)
Equity accounted loss		**81,079**	209,217	**–**	–
Write down in carrying value of investments		**–**	–	**–**	48,000
Gain in dilution of equity investments		**(27,545)**	(16,670)	**–**	–
Write down in carrying value of loans		**–**	–	**1,332,918**	2,350,900
Share-based payments		**82,612**	60,967	**–**	–
Difference in overseas tax rates		**87,445**	–	**–**	–
Future income tax benefits not brought to account		**1,444,596**	2,046,264	**395,609**	496,218
Income tax credit		**(721,874)**	–	**–**	–

c) Amounts recognised directly in equity

Reduction of deferred tax liabilities of $131,253 arising due to foreign exchange movments have been recognised within the foreign currency translation reserve in equity.

7. Income tax expense (continued)

	Notes	Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
d) Tax losses					
Unused tax losses for which no deferred tax asset has been recognised (as recovery is currently not probable)		**43,414,602**	38,124,998	**3,283,536**	2,124,498
Potential tax benefit		**13,024,381**	11,437,499	**985,061**	637,349
e) Unrecognised temporary differences					
Temporary differences for which no deferred tax asset has been recognised as recoverability is not probable		**773,247**	519,072	**176,386**	129,548
Unrecognised deferred tax relating to the temporary differences		**231,974**	155,722	**52,916**	38,864

Potential future income tax benefits attributable to tax losses carried forward have not been brought to account at 30 June 2007 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.

Further, realisation of the benefit of tax losses would be subject to the Company satisfying the conditions for deductibility imposed by tax legislation and no subsequent changes in tax legislation adversely affecting the Company.

The Company made an assessment as to the satisfaction of deductibility conditions at 30 June 2006, however no such similar assessment has been made at 30 June 2007.

8. Current assets – Cash and cash equivalents

	Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Cash at bank and on hand	**4,018,903**	1,500,259	**61,287**	79,012
Deposits at call	**6,053,990**	12,783,565	**5,523,144**	12,282,122
	10,072,893	14,283,824	**5,584,431**	12,361,134

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 6.10% to 6.26% (2006: 5.00% to 5.86%). These deposits are of 30–90 day maturities.

Cash not available

There is $328,734 of cash not available for use due to restrictions associated with a finance lease which is guaranteed by term deposit (2006: $481,879).

8. Current assets – Cash and cash equivalents (continued)

Interest rate risk

30 June 2007

Financial Assets	Notes	Floating interest rate $	Fixed interest maturing: 1 year or less $	1 to 2 years $	2 to 3 years $	3 to 4 years $	4 to 5 years $	More than 5 years $	Non-interest bearing $	**Total $**
Cash and deposits	8	703,315	6,053,990	–	–	–	–	–	3,315,588	**10,072,893**
Receivables	9	–	–	–	–	–	–	–	1,334,725	**1,334,725**
		703,315	6,053,990	–	–	–	–	–	4,650,313	**11,407,618**
Weighted average interest rate		*5.0%*	*5.8%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	

Financial Liabilities	Notes	Floating interest rate $	Fixed interest maturing: 1 year or less $	1 to 2 years $	2 to 3 years $	3 to 4 years $	4 to 5 years $	More than 5 years $	Non-interest bearing $	**Total $**
Payables and provisions	16/18/21	–	–	–	–	–	–	–	2,268,235	**2,268,235**
Borrowings	17/20	–	68,587	73,426	78,604	108,117	–	–	–	**328,734**
Deferred income	19/22	–	–	–	–	–	–	–	1,149,107	**1,149,107**
		–	68,587	73,426	78,604	108,117	–	–	3,417,342	**3,746,076**
Weighted average interest rate		*0.0%*	*7.2%*	*7.2%*	*7.2%*	*7.2%*	*0.0%*	*0.0%*	*0.0%*	

30 June 2006

Financial Assets	Notes	Floating interest rate $	Fixed interest maturing: 1 year or less $	1 to 2 years $	2 to 3 years $	3 to 4 years $	4 to 5 years $	More than 5 years $	Non-interest bearing $	**Total $**
Cash and deposits	8	487,673	12,783,565	–	–	–	–	–	1,012,586	**14,283,824**
Receivables	9	–	–	–	–	–	–	–	2,824,267	**2,824,267**
		487,673	12,783,565	–	–	–	–	–	3,836,853	**17,108,091**
Weighted average interest rate		*5.5%*	*5.8%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	

Financial Liabilities	Notes	Floating interest rate $	Fixed interest maturing: 1 year or less $	1 to 2 years $	2 to 3 years $	3 to 4 years $	4 to 5 years $	More than 5 years $	Non-interest bearing $	**Total $**
Payables and provisions	16/18/21	–	–	–	–	–	–	–	2,336,896	**2,336,896**
Borrowings	17/20	–	142,092	68,979	73,844	79,052	93,537	–	–	**457,504**
Deferred income	19/22	–	–	–	–	–	–	–	902,679	**902,679**
		–	142,092	68,979	73,844	79,052	93,537	–	3,239,575	**3,697,079**
Weighted average interest rate		*0.0%*	*6.7%*	*7.2%*	*7.2%*	*7.2%*	*0.0%*	*0.0%*	*0.0%*	

9. Current assets – Trade and other receivables

	Consolidated		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
Trade and grant receivable	**865,356**	2,628,146	**–**	–
Interest receivable	**13,489**	29,054	**58,030**	22,247
Prepayments	**435,843**	160,445	**64,457**	72,045
Loans to controlled entities	**–**	–	**1,254,228**	
Other receivables	**20,037**	6,622	**59,708**	–
	1,334,725	2,824,267	**1,436,423**	94,292

Trade and grant receivables
Trade receivables comprise of customer royalty and licence revenue and are subject to normal terms of settlement within 30 to 90 days. Grant receivables comprise expenditure reimbursable under grants from USA National Institutes of Health ("NIH") and Australian P3 and are subject to normal terms of settlement within 30 to 90 days.

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 – Receivables

	Consolidated		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
Loans to controlled entities	**–**	–	**31,249,961**	26,806,901
Provision for doubtful debts	**–**	–	**(31,249,961)**	(26,806,901)
	–	–	**–**	–

Interest rate risk
Current and non-current receivables are non-interest bearing. Information concerning the effective interest rate is detailed in note 8.

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

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

Consolidated	Plant and Equipment $	Leasehold improvements $	Plant and Equipment under finance lease $	Total Plant and Equipment $
At 1 July 2005				
Cost	1,766,727	1,128,512	320,000	3,215,239
Accumulated depreciation and amortisation	(1,248,823)	(541,652)	(192,000)	(1,982,475)
Net book amount	517,904	586,860	128,000	1,232,764
Year ended 30 June 2006				
Opening net book amount	517,904	586,860	128,000	1,232,764
Additions	455,740	7,444	438,072	901,256
Disposals	(24,906)	–	–	(24,906)
Depreciation and amortisation	(347,433)	(211,530)	(119,027)	(677,990)
Closing net book amount	601,305	382,774	447,045	1,431,124
At 30 June 2006				
Cost	1,946,944	1,135,956	758,072	3,840,972
Accumulated depreciation and amortisation	(1,345,639)	(753,182)	(311,027)	(2,409,848)
Net book amount	601,305	382,774	447,045	1,431,124
Year ended 30 June 2007				
Opening net book amount	601,305	382,774	447,045	1,431,124
Exchange differences	(7,966)	–	–	(7,966)
Acquisition of subsidiary	150,841	–	–	150,841
Additions	180,460	4,757	–	185,217
Disposals	(1,858)	–	–	(1,858)
Depreciation and amortisation	(302,883)	(192,066)	(151,608)	(646,557)
Closing net book amount	619,899	195,465	295,437	1,110,801
At 30 June 2007				
Cost	2,251,267	1,140,713	758,072	4,150,052
Accumulated depreciation and amortisation	(1,631,368)	(945,248)	(462,635)	(3,039,251)
Net book amount	619,899	195,465	295,437	1,110,801

The parent entity has no plant and equipment in 2007 (2006: Nil).

12. Non-current assets – Intangible assets

Consolidated	Patents & Licences $	Goodwill $	Total Intangibles $
At 1 July 2005			
Cost	–	–	–
Accumulated depreciation and amortisation	–	–	–
Net book amount	–	–	–

12. Non-current assets – Intangible assets (continued)

Consolidated	Patents & Licences $	Goodwill $	Total Intangibles $
Year ended 30 June 2006			
Opening net book amount	–	–	–
Additions	4,373,880	–	4,373,880
Depreciation and amortisation	(287,342)	–	(287,342)
Closing net book amount	4,086,538	–	4,086,538
At 30 June 2006			
Cost	4,373,880	–	4,373,880
Accumulated depreciation and amortisation	(287,342)	–	(287,342)
Net book amount	4,086,538	–	4,086,538
Year ended 30 June 2007			
Opening net book amount	4,086,538	–	4,086,538
Acquisition of subsidiary	14,900,000	1,971,737	16,871,737
Exchange differences	(1,582,831)	(216,991)	(1,799,822)
Depreciation and amortisation	(1,372,880)	–	(1,372,880)
Closing net book amount	16,030,827	1,754,746	17,785,573
At 30 June 2007			
Cost	17,634,125	1,754,746	19,388,871
Accumulated depreciation and amortisation	(1,603,298)	–	(1,603,298)
Net book amount	16,030,827	1,754,746	17,785,573

During the current year, the intellectual property acquired through the DNT business combination was fair valued at $14,900,000. The carrying value of $12,342,147 at 30 June 2007 is adjusted for the year end closing USD:AUD exchange rate of $0.8487 and is net of amortization charged from 20 October 2006 to year end. Goodwill of $1,971,737 was booked on the acquisition of DNT, representing the difference between the fair value and the net identifiable assets including the intellectual property. Refer to note 27 Business combination for additional details.

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

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

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

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

The market capitalisation of the Starpharma Group is used to determine an approximation of the fair value less costs to sell of the two CGUs which make up the Starpharma Group. Given the excess of the market capitalisation of Starpharma Holdings Ltd over the carrying value of total assets (including goodwill) at 30 June 2007, goodwill is not considered to be impaired at year end.

12. Non-current assets – Intangible assets (continued)

Parent	Patents & Licences $	Goodwill $	Total Intangibles $
At 1 July 2005			
Cost	–	–	–
Accumulated depreciation and amortisation	–	–	–
Net book amount	–	–	–
Year ended 30 June 2006			
Opening net book amount	–	–	–
Additions	4,373,880	–	4,373,880
Depreciation and amortisation	(287,342)	–	(287,342)
Closing net book amount	4,086,538	–	4,086,538
At 30 June 2006			
Cost	4,373,880	–	4,373,880
Accumulated depreciation and amortisation	(287,342)	–	(287,342)
Net book amount	4,086,538	–	4,086,538
Year ended 30 June 2007			
Opening net book amount	4,086,538	–	4,086,538
Depreciation and amortisation	(397,858)	–	(397,858)
Closing net book amount	3,688,680	–	3,688,680
At 30 June 2007			
Cost	4,373,880	–	4,373,880
Accumulated depreciation and amortisation	(685,200)	–	(685,200)
Net book amount	3,688,680	–	3,688,680

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

		Consolidated		Parent Entity	
	Notes	**2007 $**	2006 $	**2007 $**	2006 $
Shares in associated entities	33	**76,286**	2,387,312	**–**	–

Shares in associates

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

14. Non-current assets – Deferred tax assets

	Consolidated		Parent	
	2007 $	2006 $	**2007 $**	2006 $
Temporary differences recognised on the acquisition of subsidiary during the year	**43,201**	–	**–**	–
Total deferred tax asset	**43,201**	–	**–**	–

The Group has brought the temporary differences to account for DNT because it is probable that the future income tax benefit benefits will be released. The Group has other substantial future income tax benefits not brought to account at balance date because the directors do not believe it is probable that the benefit of these losses will be realised in the near future.

15. Non-current assets – Other financial assets

		Consolidated		Parent Entity	
	Notes	**2007 $**	2006 $	**2007 $**	2006 $
Other non-traded investments					
Shares in controlled entities	32	**–**	–	**33,751,641**	17,500,106
Provision for impairment in value		**–**	–	**(17,500,106)**	(17,500,106)
Shares in associated entities	33	**–**	–	**40,003**	5,208,750
		–	–	**16,291,538**	5,208,750

At 30 June 2007 and 2006, the directors undertook to assess the recoverable amount of the parent entity's investments in its subsidiaries. Each subsidiary has a value which is directly linked to the potential cash flows which may be derived from the outcome of their respective research and development activities. At 30 June 2007 and 2006, the directors have assessed that there is not sufficient certainty with respect to those potential future cash flows to warrant the deferral of research and development expenditure (the recovery of which is not assured beyond reasonable doubt) and similarly, to support the carrying value of the parent entity's investments in its subsidiaries. As a result the carrying value of the parent entity's investments in its subsidiaries, excluding DNT, remain written down to nil as at 30 June 2007 and 2006.

16. Current liabilities – Trade and other payables

	Consolidated		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
Trade creditors	**1,854,515**	1,897,819	**716,077**	830,499
Loans from controlled entities	**–**	–	**653,654**	653,655
	1,854,515	1,897,819	**1,369,731**	1,484,154

17. Current liabilities – Borrowings

	Consolidated		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
Finance lease liability (secured)	**68,587**	142,092	**–**	–

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

18. Current liabilities – Provisions

	Consolidated		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
Employee entitlements	**356,463**	331,447	**–**	–

19. Current liabilities – Deferred income

	Consolidated		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
Deferred grant income	**980,161**	661,337	**–**	–

20. Non-current liabilities – Borrowings

	Consolidated		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
Finance lease liability (secured)	**260,147**	315,412	**–**	–

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default. The carrying value of leased assets is $328,734 at 30 June 2007 (2006: $457,504).

2007		**Floating Interest rate**	**Fixed interest rate**						
	Notes		1 year or less	Over 1–2 years	Over 2–3 years	Over 3–4 years	Over 4–5 years	Over 5 years	**Total**
Lease Liabilities	17/20/31	–	68,587	73,426	78,604	108,117	–	–	**328,734**
Weighed average interest rate		–	*7.2%*	*7.2%*	*7.2%*	*7.2%*	–	–	

2006		**Floating Interest rate**	**Fixed interest rate**						
	Notes		1 year or less	Over 1–2 years	Over 2–3 years	Over 3–4 years	Over 4–5 years	Over 5 years	**Total**
Lease Liabilities	17/20/31	-	142,092	68,979	73,844	79,052	93,537	-	**457,504**
Weighed average interest rate		-	*6.7%*	*7.2%*	*7.2%*	*7.2%*	*7.2%*	-	

21. Non-current liabilities – Provisions

	Consolidated		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
Employee entitlements	**57,257**	107,630	**–**	–

22. Non-current liabilities – Deferred income

	Consolidated		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
Deferred grant income	**168,946**	241,342	**–**	–

23. Non-current liabilities – Deferred tax liabilities

	Consolidated		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
Recognised during the year on the acquisition of subsidiary due to the difference in fair value of intangible asset and its tax base	**3,177,845**	–	**–**	–
Offset of deferred tax asset arising from tax losses on acquisition	**(1,371,345)**	–	**–**	–
Reduction in deferred tax liability arising from		–	**–**	–
Amortisation of intangible asset	**(325,017)**	–	**–**	–
Impacts of foreign exchange	**(131,253)**	–	**–**	–
Offset of deferred tax asset arising from post acquisition tax losses	**(396,857)**	–	**–**	–
Net deferred tax liability	**953,373**	–	**–**	–

24. Contributed equity

(a) Share Capital

	Parent Entity		Parent Entity	
	2007 Shares	2006 Shares	**2007 $**	2006 $
Share Capital				
Ordinary shares – fully paid	**167,833,986**	147,739,245	**76,226,627**	65,375,467

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue Price	$
1-Jul-05	Opening Balance	111,235,000		46,821,956
10-Oct-05	BRI Share Placement	7,112,000	$0.62	4,373,880
17-Nov-05	Share Placement	9,573,250	$0.51	4,882,358
	less Transaction costs			(244,118)
29-Dec-05	Share Placement and Share Placement Plan	19,818,995	$0.51	10,107,687
	less Transaction costs			(566,296)
	Balance at 30 June 2006	147,739,245		65,375,467
20-Oct-06	DNT acquisition share placement	20,094,741	$0.54	10,851,160
	Balance at 30 June 2007	167,833,986		76,226,627

There was a placement of 20,094,741 shares for the remaining equity of DNT. The value of the shares issued was measured at the published market price on the date of the exchange. Refer to Note 27 Business combination for additional details.

Under the BRI share placement, Starpharma acquired outright ownership of its core technology including the patents underlying the VivaGel™ family of products and the 25% royalty that was payable to BRI under the original licence was cancelled.

(c) Ordinary shares

As at 30 June 2007 there were 167,833,986 issued ordinary shares. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Options

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

25. Reserves

(a) Reserves

	Consolidated		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
Share-based payments reserve	**697,213**	421,838	**697,213**	421,838
Foreign currency translation reserve	**(1,612,478)**	75,536	**–**	–
Asset revaluation reserve	**2,214,518**	–	**–**	–
	1,299,253	497,374	**697,213**	421,838

(b) Movement in reserves

		Consolidated		Parent Entity	
Share-based payments reserve	Notes	**2007 $**	2006 $	**2007 $**	2006 $
Balance at 1 July		**421,838**	218,615	**421,839**	218,615
Option expense		**275,374**	203,223	**275,374**	203,223
Balance at 30 June		**697,212**	421,838	**697,213**	421,838
Foreign currency translation reserve					
Balance at 1 July		**75,536**	(40,539)	**–**	–
Currency translation differences arising during the year	33 (c)	**(1,688,014)**	116,075	**–**	–
Balance at 30 June		**(1,612,478)**	75,536	**–**	–
Asset revaluation reserve					
Balance at 1 July		**–**	–	**–**	–
Uplift in fair value of the identifiable net assets of DNT on acquisition of the remaining share in associate		**2,214,519**			
Balance at 30 June		**2,214,519**	–	**–**	–

(c) Nature and purpose of reserves

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

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

(iii) Asset revaluation reserve
Uplift in fair value of the identifiable net assets of DNT on acquisition of the remaining share in associate.

26. Accumulated Losses

	Consolidated		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
Accumulated losses balance at 1 July	**(44,556,855)**	(37,034,067)	**(45,530,745)**	(36,023,489)
Net loss for the year	**(7,244,996)**	(7,522,789)	**(5,761,754)**	(9,507,256)
Accumulated losses balance at 30 June	**(51,801,850)**	(44,556,855)	**(51,292,499)**	(45,530,745)

27. Business Combination

(a) Summary of acquisition

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

From the date of acquisition, DNT contributed a net loss after tax of $3,124,898 to the end of the year based on the average USD:AUD exchanges rate. If the acquisition had occurred on 1 July 2006, consolidated revenue and consolidated loss for the year ended 30 June 2007 would have been $1,776,000 and $8,240,000 respectively. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 July 2006.

(b) Purchase consideration

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

(c) Assets and liabilities acquired

The fair value of the identifiable assets and liabilities of DNT as at the date of acquisition were:

	100% Acquiree's carrying value	100% fair value acquired	Recognised on 67% of acquisition
Assets			
Cash and cash equivalents	140,644	140,644	94,607
Trade & other receivables	357,387	357,387	240,403
Other assets	52,918	52,918	35,596
Property, plant & equipment	150,841	150,841	101,466
Intangible assets	5,837,456	14,900,000	10,022,747
Deferred tax asset	–	1,371,345	918,801
Liabilities			
Trade & other payables	(157,813)	(157,813)	(106,156)
Other current liabilities	(38,654)	(38,654)	(26,001)
Employee provisions	(61,329)	(61,329)	(41,254)
Deferred tax liability	–	(3,177,845)	(2,129,156)
Fair Value of identifiable net assets	6,281,450	13,537,494	9,111,053
Goodwill arising on consolidation			1,971,737

Cost of the combination:	
Shares issued at fair value	10,851,160
Costs associated with the acquisition	231,630
Total cost of the acquisition	11,082,790

The cash outflow on the acquisition is as follows:	
Net cash acquired with the subsidiary	140,644
Costs associated with the acquisition	(231,630)
Net cash outflow	(90,986)

The interim financial statements at 31 December 2006 disclosed provisional deferred tax assets acquired of $217,794 and goodwill on acquisition of $2,677,216.

27. Business Combination (continued)

Adjustment to the provisional values recognised on initial acquisition accounting has resulted in an adjusted deferred tax asset balance on acquisition of $918,801 and an adjusted goodwill balance on acquisition of $1,971,737.

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

The intellectual property acquired through the DNT business combination was valued at $14,900,000. The carrying value of $12,342,147 at 30 June 2007 is adjusted for the year end closing USD:AUD exchange rate of $0.8487 and is net of amortisation charged from 20 October 2006 to year end. Refer to Note 12 Intangible assets for additional detail on the movement and carrying value of intangible assets.

28. Key management personnel disclosures

(a) Directors

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

Name	Position
P T Bartels	Non-executive Chairman
J K Fairley	Chief Executive Officer and Executive Director (appointed 1 July 2006)
J W Raff	Non-executive Deputy Chairman (retired Chief Executive Officer 1 July 2006)
P M Colman	Non-executive
R Dobinson	Non-executive
L Gorr	Non-executive
P J Jenkins	Non-executive
R A Hazleton	Non-executive (appointed 1 December 2006)

J W Raff retired from the position of Chief Executive Officer on 1 July 2006. He remains a non-executive director and was appointed Deputy Chairman. J K Fairley was appointed to the position of Chief Executive Officer and Executive director on 1 July 2006.

(b) Other key management personnel

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

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

28. Key management personnel disclosures (continued)

Key management personnel during the year ended 30 June 2006 were:

Name	Position
J K Fairley	Chief Operating Officer (from 4 July 2005)
B P Rogers	Company Secretary and Chief Financial Officer
O T Grogan	VP – Commercial Development & Licensing
T D McCarthy	VP – Drug Development
G Y Krippner	Head of Chemistry
J R Paull	VP – Regulatory and Clinical Affairs
C P Barrett	VP – Business Development (from 18 July 2005)
N J Baade	Financial Controller (from 16 January 2006)

(c) Key management personnel compensation

	Consolidated		Parent entity	
	2007 $	2006 $	**2007 $**	2006 $
Short term employee benefits	**1,454,292**	1,684,432	**504,135**	519,011
Post employment benefits	**483,750**	365,707	**313,850**	186,124
Other long term benefits	**15,776**	–	**964**	–
Share based payments	**153,142**	153,340	**124,015**	–
	2,106,960	2,203,479	**942,964**	705,135

The company has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-C of the remuneration report on pages 25 to 30.

(d) Equity instrument disclosures relating to key management personnel

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

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report on pages 30 to 32.

Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of Starpharma Holdings Limited and other key management personnel of the Group, including their personally related parties, are set out below.

With the exception of J K Fairley, no director held options in the current year. No directors held options in the prior year.

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

28. Key management personnel disclosures (continued)

2006

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
Other key management personnel of the Group						
J K Fairley	–	300,000	–	–	300,000	–
O T Grogan	300,000	–	–	(100,000)	200,000	100,000
B P Rogers	220,000	–	–	–	220,000	220,000
T D McCarthy	220,000	–	–	(20,000)	200,000	200,000
G Y Krippner	200,000	–	–	–	200,000	200,000
J R Paull	100,000	–	–	–	100,000	100,000
C P Barrett	–	100,000	–	–	100,000	–
N J Baade	–	–	–	–	–	–

Share holdings

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

2007

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Starpharma Holdings Limited				
Ordinary Shares				
P T Bartels	109,804	–	–	109,804
J K Fairley	5,000	–	25,250	30,250
J W Raff	5,381,689	–	325,000	5,706,689
P M Colman	5,992,286	–	–	5,992,286
R Dobinson	2,905,976	–	–	2,905,976
L Gorr	5,204,704	–	–	5,204,704
P J Jenkins	1,635,608	–	–	1,635,608
R A Hazleton	–	–	42,616	42,616
Other key management personnel of the Group				
Ordinary Shares				
B P Rogers	65,622	–	–	65,622
J R Paull	–	–	–	–
C P Barrett	8,935	–	(8,935)	–
N J Baade	–	–	–	–
R I Berry	–	–	70,296	70,296
D J Owen	–	–	–	–
T D McCarthy[1]	4,000	–	N/A	N/A
G Y Krippner[1]	–	–	N/A	N/A
O T Grogan[1]	–	–	N/A	N/A

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

28. Key management personnel disclosures (continued)

2006

Name	**Balance at the start of the year**	**Received during the year on the exercise of options**	**Other changes during the year**	**Balance at the end of the year**
Directors of Starpharma Holdings Limited				
Ordinary Shares				
P T Bartels	100,000	–	9,804	109,804
P M Colman	5,982,482	–	9,804	5,992,286
R Dobinson	3,155,976	–	(250,000)	2,905,976
L Gorr	5,194,900	–	9,804	5,204,704
P J Jenkins	1,606,000	–	29,608	1,635,608
J W Raff	5,362,081	–	19,608	5,381,689
Other key management personnel of the Group				
Ordinary Shares				
J K Fairley	5,000	–	–	5,000
O T Grogan	–	–	–	–
B P Rogers	61,700	–	3,922	65,622
T D McCarthy	4,000	–	–	4,000
G Y Krippner	–	–	–	–
J R Paull	–	–	–	–
C P Barrett	–	–	8,935	8,935
N J Baade	–	–	–	–

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

29. Remuneration of auditors

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

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

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

	Consolidated		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
(a) Audit services				
Audit or review of financial reports of the entity or any entity in the consolidated entity				
PricewaterhouseCoopers	**107,000**	114,990	**107,000**	114,990
Other auditors of controlled entities	**26,859**		**26,859**	
Total remuneration for audit services	**133,859**	114,990	**133,859**	114,990
(b) Non-audit services				
Non-audit services: Grant reviews & program audits				
PricewaterhouseCoopers	**57,500**	7,500	**–**	–
Total remuneration for non-audit services	**57,500**	7,500	**–**	–
Total remuneration of auditors	**191,359**	122,490	**133,859**	114,990

30. Contingencies

The Company has no contingent liabilities.

31. Commitments

(a) Capital Commitments

There is no capital expenditure contracted for at the reporting date but not recognised as liabilities.

	Consolidated		Parent Entity	
Property, plant and equipment	**2007 $**	2006 $	**2007 $**	2006 $
Within one year	**–**	69,108	**–**	–
Later than one year but not later than five years	**–**	–	**–**	–
Later than five years	**–**	**–**	**–**	**–**
	–	69,108	**–**	–

31. Commitments (continued)

(b) Lease Commitments

	Consolidated		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
Not later than one year	**573,461**	423,681	**–**	–
Later than one year and not later than five years	**323,228**	683,283	**–**	–
Later than five years	**–**	–	**–**	–
	896,689	1,106,964	**–**	–
Representing:				
Cancellable operating leases	**567,955**	649,461	**–**	–
Non-cancellable finance lease	**378,302**	539,745	**–**	–
Future finance charges on finance leases	**(49,568)**	(82,242)	**–**	–
	896,689	1,106,964	**–**	–

Operating leases

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

	Consolidated		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
Commitments for minimum lease payments in relation to cancellable operating leases are payable as follows:				
Not later than one year	**504,872**	287,246	**–**	–
Later than one year and not later than five years	**63,083**	362,215	**–**	–
Later than five years	**–**	–	**–**	–
Representing cancellable operating leases	**567,955**	649,461	**–**	–

31. Commitments (continued)

Finance Leases

The Group leases plant and equipment with a carrying amount of $328,734 (2006: $457,504) under a finance lease expiring within four years.

Commitments in relation to finance leases are payable as follows:	Notes	Consolidated 2007 $	Consolidated 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Not later than one year		**89,443**	161,443	**–**	–
Later than one year and not later than five years		**288,859**	378,303	**–**	–
Later than five years		**–**	–	**–**	–
Minimum lease payments		**378,302**	539,746	**–**	–
Future finance charges		**(49,568)**	(82,242)	**–**	–
Recognised as a liability		**328,734**	457,504	**–**	–
Representing finance lease liabilities:					
Current	17	**68,587**	142,092	**–**	–
Non-Current	20	**260,147**	315,412	**–**	–
		328,734	457,504	**–**	–

The weighted average interest rate implicit in the lease is 7.20% (2006: 6.26% to 7.20%).

(c) Expenditure Commitments

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

(d) Termination Commitments

The service contracts of key management personnel include benefits payable by the Group on termination of the employee's contract. Refer to section C of the remuneration report on pages 29 and 30 for details of these commitments.

32. Subsidiaries

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

On 20 October 2006, Starpharma Holdings Ltd acquired the remaining 67% of equity in Dendritic Nanotechnologies Inc. ("DNT"). Pre the acquisition, Starpharma Holdings Ltd was a 33% shareholder in DNT and accounted for using the equity method. Since acquisition, DNT is accounted for as a wholly owned subsidiary. Refer to note 27 Business combination for additional details.

Name of entity	Country of Incorporation	Class of Shares	Equity Holding 2007 %	Equity Holding 2006 %	Cost of Parent Entity's Holding Investment 2007 $	Cost of Parent Entity's Holding Investment 2006 $
Starpharma Pty Limited	Australia	Ordinary	**100.00%**	100.00%	**9,900,001**	9,900,001
Angiostar Pty Limited	Australia	Ordinary	**100.00%**	100.00%	**3,300,005**	3,300,005
Viralstar Pty Limited	Australia	Ordinary	**100.00%**	100.00%	**4,300,000**	4,300,000
Preclin Pty Limited	Australia	Ordinary	**100.00%**	100.00%	**100**	100
Dendritic Nanotechnologies Inc.	USA	Ordinary	**100.00%**	32.91%	**16,251,537**	5,168,747
					33,751,643	22,668,853

33. Investments in associates

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

On 20 October 2006, Starpharma Holdings Ltd acquired the remaining 67% of equity in Dendritic Nanotechnologies Inc. ("DNT"). Pre the acquisition, Starpharma Holdings Ltd was a 33% shareholder in DNT and accounted for using the equity method. Since acquisition, DNT is accounted for as a wholly owned subsidiary. Refer to note 27 Business combination for additional details.

(a) Carrying amounts

				Equity Holding		Cost of Parent Entity's Holding Investment	
Name of entity	Notes	Country of Incorporation	Class of Shares	**2007 %**	2006 %	**2007 $**	2006 $
Dendritic Nanotechnologies Inc.	32	USA	Ordinary	**–**	32.91%	**–**	5,168,747
Dimerix Bioscience Pty Ltd		Australia	Ordinary	**8.72%**	22.00%	**40,003**	40,003
						40,003	5,208,750

(b) Movements in carrying amounts

		Consolidated	
Movements in carrying amounts of investments in associates	Notes	**2007 $**	2006 $
Carrying amount at the beginning of the financial year		**2,387,312**	2,913,061
Acquisition of associate previously equity accounted		**(2,057,044)**	–
Gain on issue of equity by associate		**91,816**	55,566
Share of losses from ordinary activities after related income tax		**(270,262)**	(697,390)
Foreign currency reserve	25	**(75,536)**	116,075
Carrying amount at the end of the financial year		**76,286**	2,387,312

(c) Reserves attributable to associates

	Consolidated	
Foreign currency reserve	**2007 $**	2006 $
Balance at the beginning of the financial year	**75,536**	(40,539)
Net exchange differences on translation of results of associated entity	**(75,536)**	116,075
Balance at the end of the financial year	**–**	75,536

(d) Summarised financial information of associates

	Consolidated	
Dimerix Bioscience Pty Ltd	**2007 $**	2006 $
Profit (loss) from ordinary activities after related income tax expenses	**(293,574)**	(347,206)
Assets	**872,008**	507,758
Liabilities	**2,828**	104,943

34. Events occurring after the balance sheet date

On 22 August 2007 Starpharma Holdings Limited raised an additional A$3.8M in capital on the issue of 11,881,167 ordinary shares in a private placement to a US-based institution and an existing Australian institutional shareholder at a price of $0.3212 per share. Attached to the placement are unlisted options of 7,567,119. The options have an exercise price of $0.4346 per option with an expiry date of 21 August 2012.

The proceeds of the placement will principally be used to support the further development of Starpharma's dendrimer programs, in particular drug delivery, its PrioFect™ siRNA delivery technology and the condom coating line extension of VivaGel™.

There are no other significant events occurring since 30 June 2007 that have significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group.

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

	Consolidated		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
Operating loss after tax:	**(7,244,996)**	(7,522,789)	**(5,761,754)**	(9,507,256)
Depreciation and amortisation	**2,019,437**	965,333	**397,858**	287,342
Exchange rates movement	**501,542**	–	**30,116**	–
Non-cash employee benefits -share-based payments	**275,375**	203,223	**–**	
Change in operating assets and liabilities, net of effects of acquisitions and disposals of entities:				
(Increase) decrease in receivables and other assets	**1,846,928**	(2,602,581)	**(87,891)**	(3,208)
(Increase) decrease in deferred tax assets	**(43,201)**	–	**–**	
(Decrease) increase in trade creditors	**(217,316)**	250,637	**60,685**	718,877
Increase (decrease) in deferred tax liabilities	**(852,127)**	–	**–**	
Increase (decrease) in employee provisions	**(86,686)**	70,304	**–**	
Increase in deferred income	**246,428**	524,616	**–**	
Share in results of associates	**178,446**	641,825	**–**	
Gain on sale of property, plant and equipment	**(4,024)**	(20,516)	**–**	
Provision for doubtful debts	**–**	–	**4,443,060**	7,996,332
Net cash outflows from operating activities	**(3,380,194)**	(7,489,948)	**(917,926)**	(507,913)

36. Non–cash financing activities

	Consolidated		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
Acquisition of property, plant and equipment by means of finance lease	**–**	438,000	**–**	–
Outright acquisition of IP by means of share issue	**–**	4,373,880	**–**	4,373,880
Outright acquisition of associate by means of share issue	**10,851,160**	–	**10,851,160**	–
	10,851,160	4,811,880	**10,851,160**	4,373,880

37. Earnings per share

	Consolidated 2007 $	2006 $
Basic loss per share	**(0.04)**	(0.06)
Diluted loss per share	**(0.04)**	(0.06)
Net loss attributable to members of Starpharma Holdings Ltd used as the numerator in calculating diluted and basic earnings per share	**(7,244,996)**	(7,522,789)
Weighted average number of ordinary shares outstanding during the year used as the denominator in calculating diluted and basic earnings per share	**161,667,928**	132,297,514

38. Share-based payments

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

The objective of the Plan is to assist in the recruitment, reward, retention and motivation of employees of the company.

Options are granted under the plan for no consideration.

Options are normally granted for a three or five year period and become exercisable on the second anniversary of the date of grant.

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

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

(b) Individual Option Deeds
The company infrequently issues options to key consultants of the company. The objective of the option issues is to assist in the reward, retention and motivation of consultants of the company.

Options are granted for no consideration, usually in lieu of some proportion of cash compensation.

Options are normally granted for a two to five year period, with various exercisable dates.

Options granted carry no dividend or voting rights.

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

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

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

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

38. Share-based payments (continued)

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

2006

Grant Date	Expiry Date	Exercise Price	Balance at start of the year	Granted during the year	Forfeited during the year	Expired during the year	Balance at end of the year	Exercisable at end of the year
			Number	Number	Number	Number	**Number**	Number
Consolidated and parent entity								
7 Feb 2001	31 Dec 2005	$0.94	220,000	–	–	220,000	**–**	–
12 Apr 2002	11 Apr 2007	$0.94	220,000	–	–	–	**220,000**	220,000
21 Jun 2002	30 Jun 2007	$0.94	200,000	–	–	–	**200,000**	200,000
6 Feb 2004	31 Dec 2008	$0.73	200,000	–	–	–	**200,000**	200,000
8 Feb 2004	8 Feb 2009	$0.94	730,000	–	10,000	–	**720,000**	720,000
31 Dec 2004	31 Dec 2009	$0.94	182,000	–	15,000	–	**167,000**	–
12 May 2005	12 May 2010	$0.94	100,000	–	–	–	**100,000**	–
4 Jul 2005	4 Jul 2010	$0.94	–	300,000	–	–	**300,000**	–
18 Jul 2005	18 Jul 2010	$0.94	–	100,000	–	–	**100,000**	–
Total			1,852,000	400,000	25,000	220,000	**2,007,000**	1,340,000
Weighted average exercise price			$0.92	$0.94	$0.94	$0.94	**$0.92**	$0.91

All options in 2006 and prior years were granted under the Employee Option Plan.

No options were exercised during the current or prior year.

The weighted average remaining contractual life of share options outstanding at the end of the period was 2.78 years (2006: 2.65 years).

Fair value of options granted

The weighted average assessed fair value at grant date of options granted during the year ended 30 June 2007 was $0.21 per option (2006: $0.15). The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option.

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

Options are granted for no consideration, have a four or five year life and typically become exercisable on the second anniversary of the date of grant.

Options granted during the year ended 30 June 2007 were:

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

38. Share-based payments (continued)

Options granted during the year ended 30 June 2006 were:

Option grant date	4 Jul 2005	18 Jul 2005
Number of options	300,000	100,000
Exercise price	$0.94	$0.94
Expiry date	4 Jul 2010	18 Jul 2010
Expected price volatility of the company's shares	46.9%	46.9%
Risk-free interest rate	5.2%	5.2%
Expected dividend yield	0.0%	0.0%
Share price at grant date	$0.50	$0.52
Assessed fair value	$0.15	$0.16

(b) Expenses arising from share-based payment transactions

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

	Consolidated		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
Options issued under employee option plan	**269,150**	203,223	**–**	–
Options issued under deed	**6,224**	–	**–**	–
	275,374	203,223	**–**	–

39. Related Party Transactions

(a) Parent entity and subsidiaries

The parent entity of the Group is Starpharma Holdings Limited. Interests in subsidiaries are set out in note 32.

(b) Key management personnel

Disclosures relating to key management personnel are set out in note 28.

(c) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
Other Transactions				
Funds advanced to subsidiary	**–**	–	**5,597,031**	7,683,238
Funds advanced from subsidiary	**–**	–	**–**	(50,129)
Share-based payments	**–**	–	**275,374**	203,223
Management services from subsidiary	**–**	–	**(552,778)**	(640,467)
Management services to subsidiaries	**–**	–	**62,670**	–

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

39. Related Party Transactions (continued)

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

	Consolidated		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
Current Receivables				
Interest on loan to subsidiary	**–**	–	**47,730**	–
Loan to subsidiary	**–**	–	**1,254,228**	–
Management services to subsidiaries	**–**	–	**59,696**	–
Current Payables				
Management services from subsidiary	**–**	–	**539,119**	704,514

Outstanding balances are payable in cash.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 41 to 79 are in accordance with the *Corporations Act 2001,* including:
  (i) complying with *Accounting Standards*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the financial year ended on that date; and

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

(c) the audited remuneration disclosures set out on pages 25 to 32 of the directors' report comply with *Accounting Standards AASB 124 Related Party Disclosures* and the *Corporations Regulations 2001.*

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

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

Peter T Bartels, *AO*
Director

Melbourne, 26th September 2007

PRICEWATERHOUSECOOPERS

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

Report on the financial report and the AASB 124 Remuneration disclosures contained in the directors' report

We have audited the accompanying financial report of Starpharma Holdings Limited (the company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Starpharma Holdings Limited and the Starpharma Holdings Limited Group (the consolidated entity). The consolidated entity comprises Starpharma Holdings Limited (the company) and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in the directors' report and not in the financial report. These remuneration disclosures are identified in the directors' report as being subject to audit. The remuneration report contains information also, for which an auditors' opinion is not required and has not been formed. These disclosures have been identified as such.

Directors' responsibility for the financial report and the AASB 124 Remuneration disclosures contained in the directors' report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

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. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' 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 and the remuneration disclosures contained in the directors' 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 and the remuneration disclosures contained in the directors' report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report and remuneration disclosures of Starpharma Holdings Limited (the company) for the financial year ended 30 June 2007 included on the Starpharma Holdings Limited web site. The company's directors are responsible for the integrity of the Starpharma Holdings Limited web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report and remuneration disclosures identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or remuneration disclosures. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration disclosures to confirm the information included in the audited financial report and remuneration disclosures presented on this web site.

Independence

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

Auditor's opinion on the financial report

In our opinion:

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

   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

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

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

Auditor's opinion on the AASB 124 Remuneration disclosures contained in the directors' report

In our opinion, the remuneration disclosures contained in the directors' report and identified as being subject to audit, comply with Accounting Standard AASB 124.

PricewaterhouseCoopers

PricewaterhouseCoopers

SC Bannatyne — Melbourne

Partner — 26 September 2007

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 17 September 2007

Supplementary information as required by Australian Stock Exchange listing requirements.

A. Distribution of equity shareholders

Analysis of numbers of equity security holders by size of holding as at 17 September 2007

	Class of equity security Ordinary shares	
	Shares	Options
1–1,000	159	–
1,001–5,000	726	–
5,001–10,000	460	2
10,001–100,000	852	21
100,000 and over	160	8
	2,357	31

As at 17 September 2007 there were 206 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest security holders

Top 20 shareholders as at 17 September 2007:

	Ordinary shares	
	Number held	Percentage of issued shares
1. ANZ Nominees Limited <Cash Income A/C>	24,826,543	13.81
2. The Dow Chemical Company	14,406,827	8.02
3. National Nominees Ltd	13,893,271	7.73
4. HSBC Custody Nominees (Australia) Limited - GSI ECSA	8,799,389	4.90
5. Peter Malcolm Colman	5,522,286	3.07
6. Commonwealth Scientific and Industrial Research Organisation	4,514,698	2.51
7. JPS Distribution Pty Ltd <Raff S/F A/C>	3,567,831	1.99
8. J P Morgan Nominees Australia Limited	3,193,790	1.78
9. Gilridge Pty Ltd	3,035,054	1.69
10. Applecross Secretarial Services Pty Ltd <Gorr Pension Plan A/C>	3,004,000	1.67
11. Biotech Capital Ltd	3,000,000	1.67
12. Citicorp Nominees Pty Limited	2,896,263	1.61
13. Queensland Investment Corporation	2,841,031	1.58
14. Kenneth Nominees Pty Ltd <Rayse Super Fund A/C>	2,600,000	1.45
15. Strategic Industry Research Foundation Limited	2,597,302	1.45
16. Irrewarra Investments Pty Ltd <ST A/C>	1,995,859	1.11
17. Citicorp Nominees Limited <Cwlth Bank Off Super A/C>	1,738,409	0.97
18. Mr Donald A Tomalia & Mrs Janet E Tomalia	1,325,460	0.74
19. Mr Peter Murray Jackson	1,250,000	0.70
20. UBS Wealth Management Australia Nominees Pty Ltd	1,166,694	0.65
	106,174,707	59.10

Shareholder information (continued)

Unquoted equity securities	Number on issue	Number of holders
Options issued under the Starpharma Holdings Limited Employee Share Option Plan (ASX code SPLAM)	3,441,000	31
Options issued under individual option deeds	7,632,119	6
Total	**11,073,119**	**37**

C. Substantial holders

The following information is extracted from the Company's register of substantial shareholders as at 17 September 2007:

	Number held	Percentage
Ordinary shares		
Acorn Capital Limited	17,151,577	9.54
The Dow Chemical Company	14,406,827	8.02

D. Voting rights

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

(a) Ordinary shares

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

(b) Options

No voting rights.

E. Securities subject to voluntary escrow

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

Number of shares	Number of holders	Release date
4,860,894	2	18 October 2007
284,396	29	18 April 2008
3,601,707	1	18 October 2008
7,203,403	1	18 October 2009

INTELLECTUAL PROPERTY REPORT

Starpharma Patent Portfolio

With the acquisition of DNT, the Starpharma patent portfolio has grown to over 122 granted patents. Five new provisional patent applications were filed during the year in areas such as platform technology, therapeutics, drug delivery, dyes and water remediation.
Key patents within the Starpharma portfolio comprise:

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

Intellectual Property Report (continued)

Title	Priority Date & International Publication Number	Patents Granted	Applications Pending
Angiogenesis Project Patent Portfolio			
Angiogenic Inhibitory Compounds	17 July 1996 WO98/03573	Australia, Brazil, Canada, China, Europe, USA	Japan
Inhibitory Compounds	21 October 2005 WO07/045010		International (PCT)
Imaging Project Patent Portfolio			
Imaging Macromolecule	2 April 2007 (not yet published)		International (PCT)
siRNA Project Patent Portfolio			
Delivery of Biologically Active Materials Using Core-Shell Tecto(Dendritic Polymers)	3 March 2007 (not yet published)		International (PCT)
Drug Delivery Project Patent Portfolio			
Modified Macromolecule	20 January 2006 WO07/082331		International (PCT)
Formulations Containing Hybrid Dendrimers	20 June 2007 (not yet published)		International (PCT)

CORPORATE DIRECTORY

Company Name	Starpharma Holdings Limited ABN 20 078 532 180
Directors	P T Bartels *AO* – Chairman
	J K Fairley – Chief Executive Officer
	J W Raff – Deputy Chairman
	P M Colman
	R Dobinson
	L Gorr
	R A Hazleton
	P J Jenkins
Company Secretary	B P Rogers
Registered office	Baker Building 75 Commercial Road, Melbourne, Victoria 3004
Notice of Annual General Meeting	The annual general meeting of Starpharma Holdings Limited will be held at: Blake Dawson Waldron Level 39, 101 Collins Street, Melbourne *Time*: 4.00pm *Date*: Wednesday 14 November 2007
Share Register	Computershare Investor Services 452 Johnston Street, Abbotsford VIC 3067 1300 850 505 (within Australia) +613 6415 4000 (outside Australia)
Auditor	PricewaterhouseCoopers Freshwater Place Southbank VIC 3006 Australia
Solicitors	Blake Dawson Waldron Level 39, 101 Collins Street, Melbourne VIC 3000 Australia Deacons RACV Tower, 485 Bourke Street Melbourne VIC 3000 Australia Greenberg Traurig LLP MetLife Building, 200 Park Avenue, New York, NY 10166 USA
Bankers	Commonwealth Bank of Australia
	National Australia Bank
	Wachovia Bank, USA
Stock exchange listing	ASX Limited Level 45, South Tower, Rialto, 525 Collins Street, Melbourne, Vic 3000, Australia ASX Code: SPL
	Starpharma's American Depositary Receipts (ADRs) trade under the code SPHRY (CUSIP number 855563102). Each Starpharma ADR is equivalent to ten ordinary shares of Starpharma as traded on the Australian Stock Exchange. The Bank of New York is the depositary bank.
Website address	www.starpharma.com

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