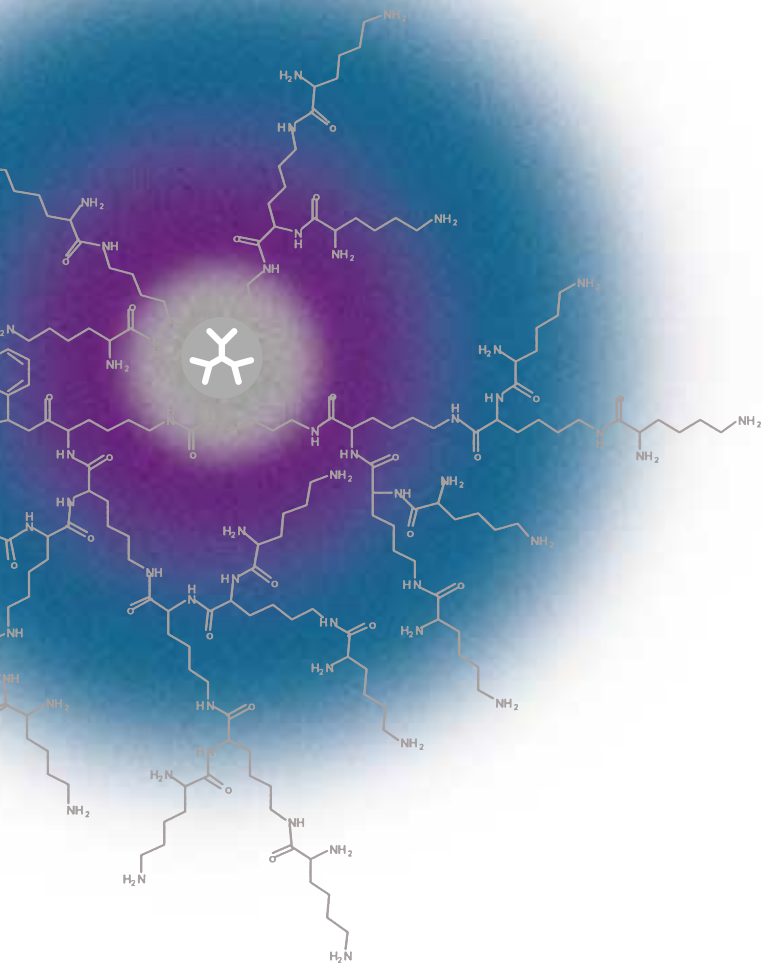




A N N U A L R E P O R T

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# STARPHARMA POOLED DEVELOPMENT LIMITED

ACN 078 532 180

## COMPANY PARTICULARS

<b>Directors</b>	R J D Oliver AM ( <i>Chairman</i> ) P M Colman BSc (Hons), PhD, FAA, FTSE R Dobinson B Bus (Acc) P J Jenkins MB, BS (Melb), FRACP L Gorr B Juris, LLB, M.Admin J W Raff Dip Ag Sc, BSc, PhD
<b>Chief Executive Officer</b>	J W Raff Dip Ag Sc, BSc, PhD
<b>Secretary</b>	B P Rogers
<b>Registered Office</b>	343 Royal Parade Parkville Vic 3052 (03) 9662 7123
<b>Notice of annual general meeting</b>	The annual general meeting of Starpharma Pooled Development Limited will be held at: ASX Theatre (530 Collins Street, Melbourne) time: 4pm date: Thursday 16 November 2000
<b>Share Register</b>	Computershare Registry Services Pty Ltd Level 12 565 Bourke Street Melbourne Vic 3000 Telephone: (03) 9615 5970 Facsimile: (03) 9611 5710
<b>Stock exchange listing:</b>	Starpharma Pooled Development Ltd shares are listed on an exempt stock market operated by: Austock Management Ltd Level 1, 350 Collins Street Melbourne Vic 3000 Telephone: (03) 8601 2000
<b>Auditor</b>	PricewaterhouseCoopers 333 Collins Street Melbourne Vic 3000
<b>Solicitors</b>	Herbert Geer & Rundle Level 21, 385 Bourke Street Melbourne Vic 3000
<b>Bankers</b>	Commonwealth Bank of Australia

# **STARPHARMA POOLED DEVELOPMENT LIMITED AND CONTROLLED ENTITIES**

## **DIRECTORS' REPORT**

The directors present their report on the consolidated accounts of Starpharma Pooled Development Limited (the company) and the entities it controlled at the end of, or during, the ended 30 June 2000.

### **Directors**

The following persons were directors of Starpharma Pooled Development Limited during the whole of the financial year and up to the date of this report:

R J D Oliver (Chairman)  
P M Colman  
R Dobinson  
P J Jenkins

J W Raff was an alternate for P M Colman from the commencement of the financial year until 5 April 2000, and was a director from his appointment on 5 April 2000 until the date of this report.

L Gorr was appointed to the office of director on 1 May 2000.

### **Principal activities**

During the year the principal activity of the consolidated entity constituted by Starpharma Pooled Development Limited and the entities it controlled consisted of management and funding of pharmaceutical research and development. Through the controlled entity, Starpharma Limited, the consolidated entity has licensed commercialisation rights to technology from the Biomolecular Research Institute Limited and has entered into research contracts with a number of Australian and overseas research organisations to further develop the technology.

### **Review of operations and consolidated results**

For the year ended 30 June 2000 the consolidated entity incurred an operating loss after income tax of \$1,772,014. Expenditure on direct research activities was \$1,422,154.

### Capital Raising

The company issued a prospectus dated 1 September 1999, which was lodged with the Australian Securities and Investments Commission on 14 September 1999. This prospectus related to an offer of ordinary shares to existing shareholders of the company.

## DIRECTORS' REPORT (continued)

The company offered existing shareholders the right to subscribe for one new share for every 4 existing shares at the price of \$2.50 per new share. The new shares were issued partly paid to 1 cent per share, with the balance of \$2.49 per new share payable within 21 days after a call by the company. The issue was fully subscribed and raised a total of \$7,812,500, to be used to continue with the consolidated entity's drug development programs in the areas of virology and angiogenesis, and also to meet ongoing working capital requirements.

### Exempt Stock Market Listing

The company engaged Austock Management Ltd to establish and operate a stock market in the shares of the company, declared to be exempt under section 771 of the *Corporations Law*. This market opened on Monday 15 November 1999.

### ASX Listing and Capital Raising

The objective of working towards a listing of the company's securities on the Official List of the Australian Stock Exchange Ltd (ASX) was announced by the Chairman at the annual general meeting of members held on 25 November 1999.

On 9 February 2000 the company announced its intention to proceed with an ASX listing, and planning commenced for an initial public offer (IPO) to raise approximately \$20 million. UBS Warburg Australia Limited was appointed as lead manager and underwriter for the IPO, with a target date for listing during June 2000.

However, following a period of volatility in overseas and local equity markets, the Board decided on 5 June 2000 to postpone the proposed ASX listing and capital raising until market conditions were more favourable.

### Subdivision of Shares and Adoption of a new constitution

A General Meeting of members held on 5 April 2000 approved two resolutions as part of the preparations for the ASX listing:

1. Subdivision of shares - Each of the 15,625,000 issued shares in the capital of the company was subdivided into 4 shares making a total of 62,500,000 issued shares.
2. New Constitution – To prevent any delays in the application process for ASX listing a new constitution was adopted, ensuring compliance with current Listing Rules.

### Research Programs

The consolidated entity's research activities are managed by the controlled entity Starpharma Limited.

Two significant issues in the development of the technology have been scale-up synthesis and the development of assay systems for purity determination and detection of compounds in tissue. Major progress has been achieved in both of these areas in collaboration with IDT Australia Ltd and Viridae Clinical Sciences (Canada).

## DIRECTORS' REPORT (continued)

The two established major projects, the Vaginal Microbicide Program and Angiogenesis Inhibitors Program, are successfully progressing through preclinical development. An expanded range of therapeutic applications is arising from both projects. For example, *in vitro* studies have demonstrated inhibition of Human Papilloma Virus (HPV) and angiogenesis inhibition activity for the same compound, and this provides a potential for topical treatment of cervical cancer.

The anti-toxin research program is being established as a third major project area and initial applications will focus on diseases of the gut which involve toxins, for example inflammatory bowel disease, ulcerative colitis and Crohn's disease.

Research results from collaborating organisations have demonstrated other potential applications for the technology, and as a result the company has been planning to raise additional capital to fund future development efforts in these new disease areas.

### Extension of R&D Start Grant

In September 1997 the consolidated entity, through Starpharma Ltd, entered into a contract with the Industry Research and Development (IR&D) Board for a R&D *Start* grant for a project entitled "Development of Novel Dendrimer Compounds as Pharmaceuticals". This grant was originally approved for the period ending 31 March 2000. However following an application in March 2000, the IR&D Board approved a two year extension to the program, with the new completion date of 31 March 2002.

### Additional R&D Start Grant

During the year Starpharma Ltd entered into a second contract with the IR&D Board for a R&D *Start* grant for a project entitled "Angiogenesis Inhibitors". This project, for which funding approval was given on 23 June 1999, provides funding of up to \$2,950,000 on the basis of reimbursement of 50% of eligible project costs incurred during the period 1 April 1999 to 31 March 2002.

### US NIH Grant to Assist Starpharma Project

Viridae Clinical Sciences (USA) Inc of Cincinnati Ohio, have advised that they (Viridae) have been awarded a US National Institutes of Health (NIH) grant for a project entitled "Development of Dendrimers as Vaginal Microbicides". This project was developed in collaboration with Starpharma Ltd and will use compounds for which the consolidated entity has a worldwide exclusive commercialisation licence.

The goal of the project is to develop a dendrimer based vaginal microbicide to reduce the risk of transmission of viral sexually transmitted infections. A grant of \$US600,000 has been awarded following an application by Viridae under the Small Business Innovation Research Program of the United States Department of Health and Human Services.

Viridae is committed to spending these funds exclusively on the Starpharma Vaginal Microbicide Project, and this funding will assist with taking Starpharma compounds to the point of readiness for filing of an Investigational New Drug Application (IND) with the FDA for phase I clinical trials in the United States.

## DIRECTORS' REPORT (continued)

### Executive and Employee Share Option Plan

An executive and employee share option plan was approved by members at the Annual General Meeting held on 25 November 1999. On 31 January 2000 the Directors resolved to invite applications for the grant of 590,000 share options, to be issued under the terms of the Starpharma Pooled Development Limited Executive and Employee Share Option Plan ("Plan"). In accordance with the Plan the exercise price was determined to be \$3.75 per share, the market value on the date of the resolution. All invitations were accepted, and share options were issued accordingly. The options were issued prior to the subdivision of capital effective on 6 April 2000 and in accordance with the Plan, the options were subdivided in the same ratio as the shares and the exercise price amended accordingly.

### **Dividends**

No dividend has been paid or declared since the end of the previous financial year, and the directors do not recommend the declaration of a dividend.

### **Significant changes in the state of affairs**

Significant changes in the state of affairs during the financial year were as follows:

An increase in share capital from \$5,000,000 to \$12,279,472 as a result of:

	<b>2000</b>
	<b>\$</b>
Rights issue of 3,125,000 partly paid ordinary shares at \$0.01 each	31,250
Final call of \$2.49 per share on 3,125,000 ordinary shares	<u>7,781,250</u>
	7,812,500
Less: Issue costs	<u>(533,028)</u>
Net increase in share capital:	<u>7,279,472</u>

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**

#### ASX Listing and Capital Raising

Since the end of the financial year the directors have resolved to resume working towards an initial public offering to raise approximately \$20 million together with a listing of the company's securities on the Official List of the ASX.

## DIRECTORS' REPORT (continued)

### Employment of Chemistry Team

With effect from 1 July 2000 Starpharma Limited has arranged to directly employ five research chemists who were previously contracted to work on the consolidated entity's research and development programs under an arrangement with the BRI. The leader of this team is Dr Barry Matthews, one of the co-inventors of the technology licensed from the BRI.

No other matter or circumstance has arisen since 30 June 2000 that has 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.

### **Information on Directors**

<b>DIRECTOR</b>	<b>QUALIFICATIONS AND EXPERIENCE</b>	<b>SPECIAL RESPONSIBILITIES</b>
RJD OLIVER AM	Non-executive director for 3 years Former Executive Chairman, Willis Corroon International Pty Ltd, and Willis Corroon Richard Oliver Pty Ltd, a global risk management consulting group that he had established in 1972. Also business interests in the UK and Argentina.	Non-executive Chairman, Chairman of Remuneration Committee
PM COLMAN FAA	BSc(Hons), PhD, FAA, FTSE Non-executive director for 3 years 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 Ltd.	



## DIRECTORS' REPORT (continued)

R DOBINSON	<p>B. Bus (Acc) Non-executive director for 3 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 Acrux Ltd and Technology Structuring Ltd.</p>	<p>Chairman of Audit Committee, member of Remuneration Committee</p>
L GORR	<p>B. Juris, LLB, M.Admin Non-executive director since May 2000 Senior Partner, Herbert Geer &amp; Rundle. 28 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.</p>	<p>Member of Audit Committee</p>
PJ JENKINS	<p>MB, BS (Melb), FRACP Non-executive director for 3 years Consultant physician and gastroenterologist. Holds a number of clinical and research positions with the Alfred Hospital and has held clinical positions with the Baker Medical Research Centre. Foundation director of Anadis Ltd, a listed bio-pharmaceutical company. Judge of the Australian Technology Awards for the past three years.</p>	
JW RAFF	<p>Dip. Ag. Sc., BSc. PhD Previously General Manager of the Biomolecular Research Institute. Co-founder, director and major shareholder of a technology based agricultural seed company with subsidiary operation in India. Also founder and investor in a number of other start-up technology companies.</p>	<p>Chief Executive Officer</p>

## DIRECTORS' REPORT (continued)

### Directors' meetings

The number of meetings of the company's directors held during the year ended 30 June 2000, and the numbers of meetings attended by each director were:

	Full meeting of directors	Meetings of Committees	
		Audit	Remuneration
Number of meetings held:	16	2	2
Number of Meetings attended by:			
Mr Richard Oliver	15		2
Dr Peter Colman	14		
Mr Ross Dobinson	16	2	2
Mr Leon Gorr (Appointed 1 May 2000 – 1 full meeting held while a director)	1	2	
Dr John Raff (Appointed 5 April 2000 – 2 meetings held while a director)	2		
Dr Peter Jenkins	15		

### Retirement, election and continuation in office of Directors

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

In accordance with the Constitution Mr Richard Oliver retires by rotation as director at the annual general meeting and, being eligible, offers himself for re-election.

Dr John Raff was appointed a director on 5 April 2000 as an addition to the existing directors, to hold office until the next annual general meeting following his appointment. Dr Raff retires as director at the annual general meeting and, being eligible, offers himself for re-election.

Mr Leon Gorr was appointed a director on 1 May 2000 as an addition to the existing directors, to hold office until the next annual general meeting following his appointment. Mr Gorr retires as director at the annual general meeting and, being eligible, offers himself for re-election.

### Share options

#### Share Options Granted to Directors and Most Highly Remunerated Officers

Options over unissued ordinary shares of Starpharma Pooled Development Limited granted during or since the end of the financial year to any of the directors or the 5 most highly remunerated officers of the company and consolidated entity as part of their remuneration were as follows:

## DIRECTORS' REPORT (continued)

### Directors

	Options Issued	Post Share Split
RJD Oliver, <i>Chairman</i>	90,000	360,000
PM Colman	70,000	280,000
L Gorr	70,000	280,000
R Dobinson	70,000	280,000
P Jenkins	70,000	280,000
JW Raff, <i>Chief Executive Officer</i>	150,000	600,000

### Other Executives

BP Rogers, <i>Company Secretary</i>	70,000	280,000
-------------------------------------	--------	---------

The options were granted under the Plan on 31 January 2000.

The exercise price of the shares under option was \$3.75 each prior to the 4 for 1 subdivision effective 6 April 2000. Post subdivision the exercise price was reduced to \$0.9375. The Exercise Period of the options is not before 1 February 2002 and subject to the expiry date up to two years after the company lists on the ASX. The expiry date of the options is 31 January 2005.

### Shares Issued on the Exercise of Options

No shares in Starpharma Pooled Development Limited have been issued on the exercise of options.

### **Insurance of officers**

During the financial year Starpharma Pooled Development Limited and officers of the company and related bodies corporate arranged through Willis Australia Ltd for a Directors' and Officers' Liability insurance policy with HIH Casualty and General Insurance Ltd to indemnify certain officers of the company and related bodies corporate.

It is a condition of the policy that the company not publish details of the nature of the liabilities insured by the policy or the amount of the premium paid.

The officers of the company covered by the insurance policy include the directors PM Colman, R Dobinson, L Gorr, PJ Jenkins, RJD Oliver and JW Raff (Chief Executive Officer) and the Secretary, BP Rogers.

### **Environmental regulations**

The economic entity has complied with all applicable environmental regulations.

## **DIRECTORS' REPORT (continued)**

### **Auditor**

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Law.

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

A handwritten signature in black ink, appearing to read 'R J D Oliver', is positioned above the printed name and title.

R J D Oliver  
Director

16 August 2000  
Melbourne

## **CORPORATE GOVERNANCE STATEMENT**

A description of the company's main corporate governance practices is set out below.

### **The Board of Directors and its committees**

The Board is responsible for the overall corporate governance of the company and its controlled entities, including development of corporate strategies, establishing goals for management and monitoring progress towards the achievement of these goals.

### **Composition of the Board**

The constitution of the company requires that one third of 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. The minimum number of directors is three and the maximum is fifteen unless the company passes a resolution varying that number.

The chairman is an independent non-executive director who is elected by the full Board.

At the date of signing the directors' report the board consisted of five non-executive directors and one executive director, Dr J W Raff. Details of the directors at the date of this statement are set out in the directors' report under the heading "Information on Directors".

### **Independent professional advice**

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

### **Administrative structure and internal control framework**

Board meetings are held on a monthly basis, or more frequently if required. A detailed management report is prepared by senior management and distributed with board papers prior to each meeting. The Chief Executive Officer and the Company Secretary attend all Board meetings.

The Board reviews and approves the investment plans and annual budget for the company and oversees the research & development plans of investee companies.

### **Ethical standards**

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.

### **Trading in company securities**

The purchase and sale of company securities by directors, executives and employees is only permitted during the thirty day period following the annual general meeting and the release of the half yearly and annual financial results to the market, unless prior approval is given to each transaction by the Chairman.

## CORPORATE GOVERNANCE STATEMENT (Continued)

### Committees

The Board has established the following committees to assist in the discharge of its responsibilities:

#### *Audit committee*

The Audit committee consists of Mr Ross Dobinson (Chairman) and Mr Leon Gorr. The committee meets at least twice a year, and has direct access to the company's auditors. The charter of the Audit Committee is:

- to review and report to the Board on the annual report and financial statements, and to review the adequacy of external audit arrangements, particularly the scope and quality of the audit.
- to provide assurance to the Board that it is receiving adequate, up to date and reliable information;
- to 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;
- to assist the board in the development and monitoring of risk management, statutory compliance and ethics programs.

#### *Remuneration committee*

The Remuneration committee advises the Board on remuneration policies and practices. This committee consists of:

Mr Richard Oliver  
Mr Ross Dobinson

The committee members have been chosen on the basis of their expertise and the composition of the committees is reviewed annually by the Board.

# STARPHARMA POOLED DEVELOPMENT LIMITED

## PROFIT AND LOSS STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2000

	Notes	Consolidated		Parent Entity	
		2000 \$	1999 \$	2000 \$	1999 \$
<b>Operating revenue</b>	2	<b>1,609,750</b>	896,625	<b>199,464</b>	84,584
<b>Operating profit/(loss) before abnormal items</b>	3	<b>(1,772,014)</b>	(1,169,167)	<b>136,442</b>	46,172
Abnormal items before income tax		-	-	-	-
<b>Operating profit/(loss) before income tax</b>		<b>(1,772,014)</b>	(1,169,167)	<b>136,442</b>	46,172
Income tax attributable to operating profit/(loss)	4	-	-	-	-
<b>Operating profit/(loss) after income tax</b>		<b>(1,772,014)</b>	(1,169,167)	<b>136,442</b>	46,172
Retained profits/(accumulated losses) at the beginning of the financial year		<b>(2,439,964)</b>	(1,270,797)	<b>59,111</b>	12,939
<b>Retained profits/(accumulated losses) at the end of the financial year</b>	12	<b>(4,211,978)</b>	(2,439,964)	<b>195,553</b>	59,111

*The above profit and loss statements should be read in conjunction with the accompanying notes*

# STARPHARMA POOLED DEVELOPMENT LIMITED

## BALANCE SHEETS

AS AT 30 JUNE 2000

	Notes	Consolidated		Parent Entity	
		2000	1999	2000	1999
		\$	\$	\$	\$
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash	5	7,225,730	2,712,983	5,431,807	1,013,540
Receivables	6	698,237	10,340	3,251	3,895
Other	7	225,976	99,617	67,804	95,637
<b>Total Current Assets</b>		<b>8,149,943</b>	2,822,940	<b>5,502,862</b>	1,113,072
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	8	116,832	22,352	-	-
Investments	14	-	-	7,000,006	4,000,006
<b>Total Non Current Assets</b>		<b>116,832</b>	22,352	<b>7,000,006</b>	4,000,006
<b>TOTAL ASSETS</b>		<b>8,266,775</b>	2,845,292	<b>12,502,868</b>	5,113,078
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	9	159,854	266,367	27,843	53,967
Provisions	10	39,427	18,889	-	-
<b>Total Current Liabilities</b>		<b>199,281</b>	285,256	<b>27,843</b>	53,967
<b>TOTAL LIABILITIES</b>		<b>199,281</b>	285,256	<b>27,843</b>	53,967
<b>NET ASSETS</b>		<b>8,067,494</b>	2,560,036	<b>12,475,025</b>	5,059,111
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	11	12,279,472	5,000,000	12,279,472	5,000,000
Share premium reserve	11	-	-	-	-
Retained profits (Accumulated losses)	12	(4,211,978)	(2,439,964)	195,553	59,111
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>8,067,494</b>	2,560,036	<b>12,475,025</b>	5,059,111

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



# STARPHARMA POOLED DEVELOPMENT LIMITED

## STATEMENTS OF CASH FLOWS

AS AT 30 JUNE 2000

	Notes	Consolidated		Parent Entity	
		2000	1999	2000	1999
		\$	\$	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from trade and other debtors		-	55	-	5
Grant income		517,141	293,354	-	-
Payments to suppliers and employees		(3,437,974)	(1,815,409)	(61,313)	(80,082)
Interest received		263,902	165,426	200,108	92,887
<b>Net cash flows from operating activities</b>	17	<b>(2,656,931)</b>	<b>(1,356,574)</b>	<b>138,795</b>	<b>12,810</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Payments to acquire subsidiaries		-	-	(3,000,000)	(2,100,005)
Payments for property, plant and equipment		(109,794)	(5,886)	-	-
<b>Net cash flows from investing activities</b>		<b>(109,794)</b>	<b>(5,886)</b>	<b>(3,000,000)</b>	<b>(2,100,005)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issue of shares		7,812,500	-	7,812,500	-
Share issue transaction costs		(533,028)	-	(533,028)	-
<b>Net cash flows from financing activities</b>		<b>7,279,472</b>	<b>-</b>	<b>7,279,472</b>	<b>-</b>
<b>NET INCREASE IN CASH HELD</b>		<b>4,512,747</b>	<b>(1,362,460)</b>	<b>4,418,267</b>	<b>(2,087,195)</b>
<b>Cash at the beginning of the financial year</b>		<b>2,712,983</b>	<b>4,075,443</b>	<b>1,013,540</b>	<b>3,100,735</b>
<b>CASH AT THE END OF THE FINANCIAL YEAR</b>		<b>7,225,730</b>	<b>2,712,983</b>	<b>5,431,807</b>	<b>1,013,540</b>

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

# STARPHARMA POOLED DEVELOPMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2000

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Law.

It is prepared in accordance with the historical cost convention. The accounting policies adopted are consistent with those of the previous year. Comparative information is reclassified where appropriate to enhance comparability.

#### *(a) Principles of consolidation*

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Starpharma Pooled Development Limited (the 'company' or 'parent entity') as at 30 June 2000 and the results of all controlled entities for the year then ended. Where control of an entity is obtained during the financial year, its results are included in the consolidated profit and loss account from the date on which control commences. Starpharma Pooled Development Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

#### *(b) Operating revenue*

Operating revenue represents payments under the Federal Government R&D START grant, interest income on short term deposits and sundry items.

#### *(c) Income tax*

Tax effect accounting procedures are followed whereby the income tax expense in the profit and loss account is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward unless the benefit is virtually certain of realisation.

#### *(d) Acquisition of assets and their recoverable amounts*

The cost method of accounting is used for all acquisitions regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs incidental to the acquisition. The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal. Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is revalued to its recoverable amount. In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 30 JUNE 2000

**(e) Depreciation and amortisation of property, plant and equipment**

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each item of property, plant and equipment over its expected useful life to the consolidated entity. The expected useful life of items of property, plant and equipment ranges from 4 to 8 years.

**(f) Employee entitlements**

Employee entitlements have been calculated in accordance with AASB 1028, Accounting for Employee Entitlements.

**(g) Superannuation**

The consolidated entity contributes to employee superannuation on the basis of legal and contractual requirements, with contributions being charged against income.

**(h) Research expenditure**

Research expenditure is charged against income when incurred.

**(i) Revenue recognition**

Grant funding is provided under the consolidated entity's agreements with the Commonwealth of Australia. Grant funding is equivalent to 50% of the consolidated entity's spend on eligible research. Grant revenue is recognised when eligible research expenditure has been incurred.

**(j) Trade and other creditors**

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year which are unpaid. These amounts are unsecured and are paid in accordance with supplier terms.

**(k) Cash**

For the purpose of the statements of cash flows, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

**(l) Transaction costs arising in relation to the issue of equity**

Transaction costs in relation to the future issue of equity are deferred and recognised directly as a reduction against the proceeds of the future capital raising to which they relate.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 30 JUNE 2000**

**(m) Investments**

Investments in controlled entities are accounted for in the consolidated financial statements in the manner set out in Note 1(a).

**(n) Year 2000 software modification costs**

Costs relating to the modification of computer software for year 2000 compatibility are charged as expenses as incurred.

**NOTE 2: OPERATING REVENUE**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
<b>Operating revenue</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Government grants	<b>1,344,173</b>	737,687	-	
Interest revenue	<b>265,577</b>	158,883	<b>199,464</b>	84,579
Other	-	55	-	5
	<b>1,609,750</b>	896,625	<b>199,464</b>	84,584

**NOTE 3: OPERATING PROFIT/LOSS**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>(i) Operating expenses</b>				
Operating profit/loss for the year includes the following items:				
Depreciation (plant & equipment)	<b>15,314</b>	4,915	-	-
Employee entitlements	<b>20,538</b>	7,981	-	-
Research and development expense	<b>1,422,154</b>	1,182,869	-	-
Rental expense on operating leases	<b>63,828</b>	30,276	-	-
Management fees paid to subsidiary	-	-	-	<b>29,438</b>
<b>(ii) Auditors' remuneration</b>				
Amounts received, or due and receivable, by the auditor of the consolidated entity for:				
Auditing and preparing the financial statements	<b>23,250</b>	<b>15,000</b>	-	-
Taxation services, other support	<b>44,240</b>	<b>30,070</b>	-	-

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 30 JUNE 2000**

**NOTE 4: INCOME TAX**

The aggregate amount of income tax attributable to the financial year differs from the amount calculated on the operating profit/(loss) as follows:

	2000	1999	2000	1999
	\$	\$	\$	\$
<b>Current</b>				
Operating profit/(loss) before income tax	(1,772,014)	(1,169,167)	136,442	46,172
Income tax expense/(benefit) @ 36%	(637,925)	(420,900)	49,119	16,622
Tax effect of permanent differences:				
Brokerage fees	276	-	-	-
Entertainment	-	1,041	-	-
Legal expenses	1,310	9,467	-	1,911
Other	-	2,991	-	2,991
Utilisation of group tax losses	-	-	-	(21,524)
<b>Income tax expense/(benefit) adjusted for permanent differences</b>	<b>(636,339)</b>	<b>(407,401)</b>	<b>49,119</b>	<b>-</b>
Under/(over) provision arising in prior year	(84,224)	(159,003)	-	-
Less loss transferred to controlling entity	-	-	(49,119)	-
Future income tax benefits written off/not brought to account	720,563	566,404	-	-
Income tax expense/(benefit) attributable to operating profit/loss	-	-	-	-

***Future income tax benefits***

Potential future income tax benefits of \$1,262,329 (1999: \$777,928) attributable to tax losses carried forward by controlled entities have not been brought to account in the accounts at balance date because the directors do not believe it appropriate to regard the realisation of the future income tax benefits as virtually certain. A deferred income tax liability attributable to timing differences of \$225,075 has been netted off against gross future tax benefits (valued at 30%) of \$1,487,404 at 30 June 2000 on the basis that these timing differences will reverse out in periods in which carried forward tax losses are available.

Similarly future income tax benefits attributable to timing differences of \$nil (1999: \$60,470) have not been brought to account as the directors do not believe it appropriate to regard the realisation of such benefits as virtually certain.

These benefits will only be obtained if:

- i. the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the loss to be realised; or
- ii. the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- iii. no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the loss.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 30 JUNE 2000**

**NOTE 4: INCOME TAX (continued)**

***Adjustment to deferred income tax balances***

Legislation reducing the company tax rate from 36% to 34% in respect of the 2000-2001 income tax year and then to 30% from the 2001-2002 income tax year was announced on 21 September 1999 and received Royal Assent on 10 December 1999. As a consequence, future income tax benefits attributable to carried forward losses, net of a provision for deferred income tax liability, have been revalued at 30% on the basis that the consolidated entity is not expected to be in a tax payable position until the year ended 30 June 2002 at the earliest.

**NOTE 5: CURRENT ASSETS - CASH**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	\$	\$	\$	\$
Cash at bank and on hand	<b>3,129,124</b>	2,712,983	<b>1,335,201</b>	1,013,540
Deposits at call	<b>4,096,606</b>	-	<b>4,096,606</b>	-
	<b>7,225,730</b>	2,712,983	<b>5,431,807</b>	1,013,540

**NOTE 6: CURRENT ASSETS - RECEIVABLES**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	\$	\$	\$	\$
Interest receivable	<b>12,015</b>	10,340	<b>3,251</b>	3,895
Other receivables	<b>686,222</b>	-	-	-
	<b>698,237</b>	10,340	<b>3,251</b>	3,895

**NOTE 7: CURRENT ASSETS – OTHER**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	\$	\$	\$	\$
Prepayments	<b>158,172</b>	99,617	-	95,637
Deferred (future) share issue costs	<b>67,804</b>	-	<b>67,804</b>	-
	<b>225,976</b>	99,617	<b>67,804</b>	95,637

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 30 JUNE 2000**

**NOTE 8: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT**

	Consolidated		Parent Entity	
	2000	1999	2000	1999
	\$	\$	\$	\$
Plant and equipment (at cost)	140,329	30,535	-	-
Less: Accumulated depreciation	(23,497)	(8,183)	-	-
	<b>116,832</b>	22,352	-	-

**NOTE 9: CURRENT LIABILITIES – ACCOUNTS PAYABLE**

	Consolidated		Parent Entity	
	2000	1999	2000	1999
	\$	\$	\$	\$
Trade creditors	159,854	125,557	27,843	53,967
Prepaid research grant	-	140,810	-	-
	<b>159,854</b>	266,367	<b>27,843</b>	53,967

**NOTE 10: CURRENT LIABILITIES – PROVISIONS**

	Consolidated		Parent Entity	
	2000	1999	2000	1999
	\$	\$	\$	\$
Employee entitlements	39,427	18,889	-	-

**NOTE 11: SHAREHOLDERS EQUITY**

**(i) Share Capital**

	Consolidated		Parent Entity	
	2000	1999	2000	1999
	Shares	Shares	\$	\$
(a) Paid-up capital				
Ordinary shares - fully paid	62,500,000	12,500,000	12,279,472	5,000,000

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 30 JUNE 2000**

(b) Movements in ordinary share capital of the company during the past two years were as follows:

<b>Date</b>	<b>Details</b>	<b>\$</b>
1 July 1998	Opening balance	<b>2,500,000</b>
1 July 1998	Transfer from share premium account	<u><b>2,500,000</b></u>
1 July 1999	Opening balance	<b>5,000,000</b>
	Rights issue of 3,125,000 partly paid ordinary shares at \$0.01 each.	<b>31,250</b>
	Final call of \$2.49 per share on 3,125,000 ordinary shares.	<b>7,781,250</b>
	Issue costs in relation to the rights issue and final call.	<u><b>(533,028)</b></u>
		<u><u><b>12,279,472</b></u></u>

**(ii) Share Premium Account**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	\$	\$	\$	\$
Premium on shares issued				
- 5,000 x \$0.80	-	4,000,000	-	4,000,000
Promoter shares issued				
- 7,500,000 x \$0.20	-	(1,500,000)	-	(1,500,000)
Transfer to share capital	-	(2,500,000)	-	(2,500,000)
Balance at end of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

In accordance with section 1446 of the Corporations Law, the amounts standing to the credit of the share premium account on 1 July 1998 became part of share capital. This was a consequence of the abolition of par values of shares which took effect on 1 July 1998. As all of the share premium account related to ordinary shares, the balance was allocated to ordinary share capital on that date.



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 30 JUNE 2000**

**NOTE 12: RETAINED PROFITS/(ACCUMULATED LOSSES)**

	Consolidated		Parent Entity	
	2000	1999	2000	1999
	\$	\$	\$	\$
Retained profits/accumulated losses) at beginning of the year	(2,439,964)	(1,270,797)	59,111	12,939
Net profit/(loss) for the year	(1,772,014)	(1,169,167)	136,442	46,172
Retained profits/(accumulated losses) at end of the year	<u>(4,211,978)</u>	<u>(2,439,964)</u>	<u>195,553</u>	<u>59,111</u>

**NOTE 13: COMMITMENTS FOR EXPENDITURE**

**Lease commitments**

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:

	Consolidated		Parent Entity	
	2000	1999	2000	1999
	\$	\$	\$	\$
Not later than one year	74,092	21,416	-	-
Later than one year and not later than five years	40,853	5,182	-	-
Later than five years	-	-	-	-
	<u>114,945</u>	<u>26,598</u>	<u>-</u>	<u>-</u>
Representing				
Cancellable operating leases	<u>114,945</u>	<u>26,598</u>	<u>-</u>	<u>-</u>

**Research contract commitments**

***Biomolecular Research Institute (BRI)***

The controlled entity Starpharma Limited has licensed its core technology from the Biomolecular Research Institute (BRI). Starpharma Limited has also entered into a retainer agreement with BRI under which BRI will provide ongoing scientific research expertise to Starpharma Limited in return for a contract fee of \$3,000,000 over a 3 year period which commenced 1 April 1997 and which would have expired on 31 March 2000 but for an agreement to extend its operation to 30 June 2000.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 30 JUNE 2000

#### NOTE 13: COMMITMENTS FOR EXPENDITURE (Continued)

##### *Viridae Clinical Sciences*

On 28 June 2000 the controlled entity, Starpharma Limited entered into an agreement with Viridae Clinical Sciences Inc, of Vancouver Canada to provide funding of US\$300,000 per annum to be spent on specific activities related to the vaginal microbicide research project. For disclosure purposes, this commitment has been valued using the exchange rate prevailing at 30 June 2000.

Commitments under the retainer agreement in existence at the reporting date but not recognised as liabilities, are payable as follows:

	Consolidated		Parent Entity	
	2000	1999	2000	1999
	\$	\$	\$	\$
Not later than one year	508,474	1,019,857	-	-
Later than one year and not later than five years	508,474	-	-	-
Later than five years	-	-	-	-
	<b>1,016,948</b>	1,019,857	-	-
	<b>1,016,948</b>	1,019,857	-	-

#### NOTE 14: CONTROLLED ENTITIES

##### Wholly-owned Group

The consolidated entity consists of Starpharma Pooled Development Limited and its controlled entities, Starpharma Limited, Angiostar Limited and Viralstar Limited. Ownership interest in these controlled entities is set out below.

##### Investments in Controlled Entities

	Country of Incorporation	Class of Shares	Equity Holding	Cost of Parent Entity's Investment
Starpharma Limited	Australia	Ordinary	100%	2,400,001
Angiostar Limited	Australia	Ordinary	100%	2,300,005
Viralstar Limited	Australia	Ordinary	100%	2,300,000
				7,000,006

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 30 JUNE 2000**

**NOTE 15: REMUNERATION OF DIRECTORS**

	<b>Directors of Entities in the Economic Entity</b>		<b>Directors of Parent Entity</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	\$	\$	\$	\$
Income paid or payable, or otherwise made available, to directors of entities in the consolidated entity in connection with the management of affairs of the parent entity or its controlled entities	<b>300,006</b>	84,263	<b>300,006</b>	67,410

The numbers of parent entity directors whose total income from the parent entity or related parties was within the specified bands are as follows:

\$	\$	<b>2000</b>	<b>1999</b>
10,000	-	19,999	5
60,000	-	69,999	-
160,000	-	169,000	-
200,000	-	219,999	1

**NOTE 16: REMUNERATION OF EXECUTIVES**

	<b>Executive Officers of the Consolidated Entity</b>		<b>Executive Officers of the Parent Entity</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	\$	\$	\$	\$
Remuneration received, or due and receivable from entities in the consolidated entity and related parties by Australian based executive officers (including directors) whose remuneration was at least \$100,000:				
Executive officers of the parent entity	<b>215,744</b>	154,599	215,744	154,599
Executive officers of other entities in the consolidated entity	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 30 JUNE 2000**

**NOTE 16: REMUNERATION OF EXECUTIVES (Continued)**

The numbers of Australian based executive officers (including directors) whose remuneration from entities in the consolidated entity and related parties was within the specified bands are as follows:

		<b>Executive Officers of the Consolidated Entity</b>		<b>Executive Officers of the Parent Entity</b>	
		<b>2000</b>	1999	<b>2000</b>	1999
		\$	\$	\$	\$
\$	\$				
210,000	- 219,999	<u><b>1</b></u>	<u>1</u>	<u><b>1</b></u>	<u>1</u>

Comparative executive officers remuneration is disclosed notwithstanding that the parent entity was not a disclosing entity in the previous year.

Options are granted to executive officers under the Starpharma Pooled Development Limited Executive and Employee Share Option Plan, details of which are set out in Note 22.

A summary of options granted and exercised by Australian based executive officers (with income of at least \$100,000) during the year ended 30 June 2000 is set out below. No options have been granted in previous years.

	<b>Granted</b>	<b>Exercised</b>	<b>Outstanding</b>
Australian based executive officers of the parent entity	<u>600,000*</u>	<u>-</u>	<u>600,000</u>

\* Initially 150,000 share options were granted. Following the 4 for 1 share subdivision on 6 April 2000, the number of options issued was increased on a similar basis.

The amounts disclosed as remuneration of executive officers in this note include the assessed fair value of the options at the date they were granted to executive officers during the year ended 30 June 2000. On issue of the options, the exercise price was equivalent to the share price on the date of issue. After taking this into account and the earliest date on which the options may be exercised, namely 1 February 2002, the fair value of the options at the date of issue has been assessed as \$nil.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 30 JUNE 2000**

**NOTE 17: CASH FLOW INFORMATION**

**Reconciliation of net cash flows from operating activities to operating profit/(loss) after income tax**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Operating profit/(loss) after income tax:	<b>(1,772,014)</b>	(1,169,167)	<b>136,442</b>	46,172
Depreciation and amortisation:	<b>15,314</b>	4,915	-	-
Change in operating assets and liabilities, net of effects of acquisitions and disposals of entities (Increase) decrease in receivables and other assets	<b>(814,256)</b>	137,753	<b>28,477</b>	(87,329)
Increase (decrease) in trade creditors	<b>(106,513)</b>	(338,056)	<b>(26,124)</b>	53,967
Increase (decrease) in employee provisions	<b>20,538</b>	7,981	-	-
Net cash inflows/(outflows) from operating activities	<b><u>(2,656,931)</u></b>	<b><u>(1,356,574)</u></b>	<b><u>138,795</u></b>	<b><u>12,810</u></b>

**NOTE 18: EVENTS SUBSEQUENT TO BALANCE DATE**

On 21 July 2000, the controlled entity, Starpharma Limited entered into an agreement with the Biomolecular Research Institute to provide staff, services and facilities for the period 1 July 2000 to 31 December 2000, at an estimated cost of \$245,644, under the same conditions as the previous Retainer Agreement, but with no commitment to meet a minimum amount.

On 10 August 2000, members were advised of the directors' decision and intention to list the parent entity on the Australian Stock Exchange (ASX). The company is currently preparing a prospectus to raise further capital upon listing in late September or early October 2000.

As part of the process of listing on the ASX and in the interest of maintaining an orderly market, trading in the company's shares on the Austock Exempt Market will be suspended prior to the lodgement of the prospectus with the Australian Securities and Investments Commission. Prospectus lodgement date is expected to be Thursday 17 August 2000.

**NOTE 19: RELATED PARTIES**

**Directors**

The names of persons who were directors of Starpharma Pooled Development Limited at any time during the financial year are as follows: P M Colman, R Dobinson, L Gorr, P J Jenkins, R J D Oliver and J W Raff. All of these persons were also directors during the year ended 30 June 1999, except for J W Raff who was appointed as an alternate for P M Colman on 17 June 1999 and appointed as a director on 5 April 2000, and L Gorr who was appointed as a director on 1 May 2000.

Details of directors' remuneration are set out in Note 15.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 30 JUNE 2000

#### NOTE 19: RELATED PARTIES (continued)

##### Transactions of Directors and Director-related entities concerning shares or share options

Aggregate numbers of shares of Starpharma Pooled Development Limited issued to and held directly, indirectly or beneficially by directors of the company or the economic entity or their director-related entities at balance date:

	2000 Number	1999 Number
<b>Acquisitions</b>		
Ordinary shares	8,545,984*	-
<b>Disposals</b>		
Ordinary shares	8,197,840*	-
<b>Currently held</b>		
Ordinary shares	28,234,581*	5,851,235

\*Total number of shares following a 4 for 1 share split effective from 6 April 2000.

##### Other transactions with Directors and Director-related Entities

A director, Dr P M Colman is the Managing Director of The Biomolecular Research Institute Limited, which provides contract research and research management services to the consolidated entity. All such dealings with the consolidated entity are in the ordinary course of business and on normal terms and conditions.

Two directors, Mr R Dobinson and Mr L Gorr are directors of the company, Technology Structuring Limited, which renders consulting services to the consolidated entity. All such dealings with the consolidated entity are in the ordinary course of business and on normal terms and conditions.

A director, Mr L Gorr is a partner of Herbert Geer & Rundle, who have provided legal services to the consolidated entity. All such dealings with the consolidated entity are in the ordinary course of business and on normal terms and conditions.

Aggregate amounts of each of the above types of transactions with directors and their director-related entities are:

	Consolidated		Parent Entity	
	2000	1999	2000	1999
	\$	\$	\$	\$
Contract research and research management services	1,090,039	892,300	-	-
Consulting services	167,562	86,000	131,562	50,000
Legal fees	164,501	73,022	150,085	50,037

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **FOR THE YEAR ENDED 30 JUNE 2000**

#### **NOTE 19: RELATED PARTIES (continued)**

Apart from the above no director has entered into a material contract with the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year end.

#### **NOTE 20: FINANCIAL INSTRUMENTS**

##### **(a) Credit risk exposures**

The credit risk on the financial assets (limited to interest receivable) of the company and consolidated entity which have been recognised on the balance sheet is generally the carrying amount of those financial assets net of any provisions where raised.

##### **(b) Interest rate risk**

The company's and consolidated entity's exposure to interest rate risk is limited to that exposure which arises from the holding of cash balances and bills of exchange. Interest is earned on cash balances at the prevailing floating rate, which at 30 June 2000 was 4.5% and on bills of exchange at 6.05%

##### **(c) Reconciliation of net financial assets to net assets**

The company's and the consolidated entity's balance sheet reflect net assets. All balances stated in these balance sheets are, respectively, considered to form part of the company's and the consolidated entity's net financial assets and liabilities with the exception of property, plant and equipment assets, other receivables, employee entitlement liabilities and investments in subsidiary company (where included therein).

##### **(d) Carrying amounts and net fair values of financial asset and liabilities**

The carrying value of financial assets and liabilities as stated in the company's and consolidated entity's balance sheets is equivalent to the net fair value of those financial assets and liabilities.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 30 JUNE 2000

#### NOTE 21: SEGMENT INFORMATION

The consolidated entity operates in the pharmaceutical research and development industry within Australia.

#### NOTE 22: EMPLOYEE ENTITLEMENTS

##### (i) Employee entitlement liabilities

	Consolidated		Parent Entity	
	2000	1999	2000	1999
	\$	\$	\$	\$
Provision for employee entitlements current (Note 10)	<u>39,427</u>	<u>18,889</u>	<u>-</u>	<u>-</u>

##### (ii) Starpharma Pooled Development Limited Executive and Employee Option Plan

The establishment of the Starpharma Pooled Development Limited Executive and Employee Option Plan was approved by members at the annual general meeting held on 25 November 1999.

Under the plan, directors of the parent entity may from time to time determine that an eligible person is entitled to participate in the plan and will determine the number of employee options which may be granted to that person or any associate of that person. In making these determinations the directors are required to have regard to the person's

- length of service with the consolidated entity;
- record of employment with the consolidated entity;
- potential contribution to the future growth of the consolidated entity; and

to any other matters which tend to warrant the person's participation in the plan.

Under the plan, eligible persons include employees of the consolidated entity, including directors and consultants acting in management roles.

A total of 590,000 options were issued under the plan to 7 employees. Subsequent to the 4 for 1 share subdivision on 6 April 2000, the number of options on issue was adjusted on a consistent basis, resulting in 2,360,000 options on issue.

The options were issued for no consideration and are capable of being exercised no earlier than 1 February 2002. The amount which may be received upon the exercising of these options post 1 February 2002 will be recognised as issued capital at the date of issue of the underlying shares. Following the share subdivision, the exercise price of the options was reduced from \$3.75 to \$0.9375. At 30 June 2000 the total number of unissued shares under these options is 2,360,000. The market selling price per ordinary share at 30 June 2000 was \$1.00.



# STARPHARMA POOLED DEVELOPMENT LIMITED AND CONTROLLED ENTITIES

## DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 14 to 31:

- (a) Comply with Accounting Standards, the Corporations Regulations and other mandatory professional reporting requirements; and
- (b) Give a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2000 and of their performance, as represented by the results of their operation and their cash flows, for the financial year ended on that date.

In the directors opinion:

- (a) the financial statements and notes are in accordance with the Corporations Law; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



R J D Oliver  
Director

16 August 2000  
Melbourne

**Independent Audit Report to the Members of  
Starpharma Pooled Development Limited**

***Scope***

We have audited the financial report of Starpharma Pooled Development Limited (the Company) for the financial year ended 30 June 2000 set out on pages 14 to 32. The Company's directors are responsible for the financial report which includes the financial statements of the Company and the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the end of, or during, the financial year. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and the Corporations Law in Australia so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

***Audit Opinion***

In our opinion, the financial report of the Company is in accordance with:

- (a) the Corporations Law, including:
  - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2000 and of their performance for the financial year ended on that date; and
  - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.

PricewaterhouseCoopers  
Chartered Accountants



Eric Barr  
Partner

Melbourne  
17 August 2000



