

# Corporate Governance Statement

Starpharma Holdings Limited (“the Company”) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board guides and monitors the Company’s activities on behalf of the shareholders. In developing policies and setting standards the Board considers the Australian Securities Exchange (“ASX”) Corporate Governance Principles and Recommendations (Second Edition 2007) (“the CGC Recommendations”). The Corporate Governance Statement set out below describes the Company’s current corporate governance principles and practices which the Board considers to comply with the CGC Recommendations. All of these practices, unless otherwise stated, were in place for the entire year. The company and its controlled entities together are referred to as the Group in this statement.

## 1. The Board of Directors

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

### 1.1 Board charter

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

#### 1.1.1 Board Composition

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

#### 1.1.2 Functions Reserved for the Board

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

##### (a) Strategic Issues

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

##### (b) Shareholding Items

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

##### (c) Financial Items

- approving the Company’s credit policy;
- reviewing and approving the annual budget and financial plans including available resources and major capital expenditure initiatives;
- seeking credit in excess of \$50,000;
- giving any guarantee or letter of credit or any security over the Company’s assets;

##### (d) Expenditure Items

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

##### (e) Audit

- Approving appointment or removal of external auditors;
- Considering any external audit reports;

##### (f) Board and Senior Management

- Establishing corporate governance policies;
- Appointment, performance assessment and, if necessary, removal of the CEO
- Determining remuneration of CEO
- Ratifying the appointment and, if necessary, the removal of senior executives;

#### 1.1.3 Other Board Responsibilities

- Enhancing and protecting the reputation of the Group;
- Overseeing the operation of the Group, including its systems for control, accountability, and risk management;
- Monitoring financial performance;
- Liaison with the Company’s auditors;
- Ensuring there are effective management processes in place and approving major corporate initiatives;
- Reporting to shareholders.

## 1.2 Board members

Details of the members of the Board, their experience, qualifications, term of office and independent status are set out in the directors' report section of the [2009 Annual Report](#) under the heading "Information on Directors". There are five non-executive directors, four of whom are deemed independent under the principles set out below, and one executive director at the date of signing the directors' report. The Board seeks to ensure that:

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

### 1.3 Directors' independence

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

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

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

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

### 1.4 Term of office

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

### 1.5 Chairman and Chief Executive Officer (CEO)

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

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

### 1.6 Commitment

The Board held eight meetings during the year ended 30 June 2009. Meetings are usually held at the Company's corporate offices and laboratory facility in the Baker Building, 75 Commercial Road, Melbourne, Australia. The number of meeting of the Board and of each Board committee held during the year ended 30 June 2009, and the number of meetings attended by each director is disclosed in the directors' report section of the [2009 Annual Report](#). The commitments of non-executive directors are considered by the remuneration and nomination committee prior to their appointment to the Board and are reviewed each year as part of the annual performance assessment. Prior to appointment or being submitted for re-election each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

### 1.7 Conflict of interests

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

### 1.8 Independent professional advice

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

### 1.9 Performance assessment

The Board undertakes an annual self assessment of its performance. Each director is asked to consider matters such as composition, structure and role of the Board, and performance of individual directors. The Chairman then meets individually with each director to discuss the assessment. During the year an assessment of the Board and its committees was conducted in accordance with these procedures.

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

## 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 for the year ended 30 June 2009:

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

### 3. Board committees

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

#### 3.1 Audit and risk committee

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

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

Details of these directors' qualifications and attendance at committee meetings are set out in the directors' report of the [2009 Annual Report](#) on pages 18 to 20. The audit and risk committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industry in which the Group operates. The committee meets at least twice a year, and has direct access to the Company's auditors. The charter of this committee is to:

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

In fulfilling its responsibilities, the audit and risk committee:

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

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

#### 3.2 Remuneration and nomination committee

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

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

Details of these directors' attendance at committee meetings are set out in the directors' report on page 20 of the [2009 Annual Report](#).

The charter of the remuneration and nomination committee is to:

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

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

directors, or any 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 21 to 30 of the [2009 Annual Report](#).

#### 4. External auditors

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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 2008. An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in note 22 to the financial statements in the [2009 Annual Report](#). It is the policy of the external auditors to provide an annual declaration of their independence to the audit and risk committee. The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

#### 5. Risk assessment and management

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The Board, through the audit and risk committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. The Company operates in a challenging and dynamic environment, and risk management is viewed as integral to realising new opportunities as well as identifying issues that may have an adverse effect on the Company's existing operations and its sustainability. The Company is committed to a proactive approach towards risk management throughout its entire business operations. The Board aims to ensure that effective risk management practices become embedded in the Company culture and in the way activities are carried out at all levels in the Company. The Board and Management recognise the importance that risk management plays in ensuring the business is able to fully capitalise on the opportunities available to it as well as mitigating potential loss. Health and Safety (see item 6) are considered to be of paramount importance and are the focus of significant risk management activities within the company. Other risk areas that are addressed include business continuity and disaster recovery, reputation, intellectual property, product development and clinical trials. Adherence to the Code of Conduct (see item 7) is required at all times and the board actively promotes a culture of quality and integrity. The Board has required management to design and implement a risk management and internal control system to manage the Group's material business risks. The risk management policy sets out policies for the oversight of material business risks, and describes the responsibilities and authorities of the Board, the audit and risk committee, the CEO, CFO, Company Secretary, and the senior management team. The CEO, CFO and Company Secretary are responsible to the Board for the overall implementation of the risk management program. During the financial year management has reported to the board as to the effectiveness of the Group's management of its material risks. [Click here](#) for a full copy of the Risk Management policy.

#### 6. The environment, occupational health and safety

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

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

#### 7. Code of conduct

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The directors are committed to the principles underpinning best practice in corporate governance, with a commitment to the highest standards of legislative compliance and financial and ethical behaviour. The Company has established a code of conduct reflecting the core values of the Company and setting out the standards of ethical behaviour expected of directors, officers and employees in all dealings and relationships including with shareholders, contractors, customers and suppliers, and with the Company. Areas covered include employment practices, equal opportunity, harassment and bullying, conflicts of interest, use of company assets and disclosure of confidential information. [Click here](#) for a full copy of the Code of Conduct.

#### 8. Trading in Company securities

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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

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The Company has developed a continuous disclosure and shareholder communication policy to ensure compliance with the ASX Listing Rules and to facilitate effective communication with shareholders.

The Board has appointed the Company Secretary as the person responsible for disclosure of information to the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public. Procedures have been established for reviewing

whether there is any price sensitive information that should be disclosed to the market, or whether any price sensitive information may have been inadvertently disclosed. All ASX announcements are posted on the Company's website as soon as practicable after release to the ASX. Announcements are also posted on the OTCQX website (<http://www.otcqx.com>) in order to provide timely disclosure to US investors trading in the Company's Level One ADRs ([OTCQX:SPHRY](#)).