starpharma

<u>Letter to Shareholders</u>

2 May 2003

Dear Shareholder,

Let me first thank you for your interest and support of Starpharma. The last twelve months have been particularly challenging times for the Australian and Global biotechnology industry, and within this context we are pleased to attach a copy of our ASX release of 30th April 2003.

This release outlines very positive developments in Starpharma's:
- US entity Dendritic Nanotechnologies Inc (DNT); and
- drug development programs in priority disease areas including HIV and SARS.

I consider Starpharma's role in the establishment of and investment in DNT to be an outstanding achievement that will progressively be recognised.

Starpharma is a world leader in the area of drug development using polyvalent dendrimer nanotechnology. Because we were one of the first in the area, Starpharma has a very strong international patent position.

The potential of a polyvalent strategy in drug development has, until recently, not been well recognised by major pharmaceutical companies. Put simply, polyvalent strategy involves multiple drug groups on the surface of a scaffold. Starpharma uses dendrimers as the scaffold, because they can be precisely manufactured. We have demonstrated that we can produce very active compounds against a wide range of disease areas using the polyvalent approach.

One of the largest recent licence deals in the international pharmaceutical industry involved the licensing of polyvalent technology. The deal included a US$50 million up-front payment, up to US$495 million milestone payments and greater than 10% royalty on final product sales.

The technology involved in this deal is similar to Starpharma's polyvalent approach. However we use a different scaffolding - dendrimers - which we believe offer advantages for the building of polyvalent drugs. Starpharma, together with DNT, is in a very strong position in this area with excellent prospects for future licensing.

Starpharma's core business is drug discovery for the international marketplace. The cost and resources required for drug development dictate that Starpharma forms partnerships and licenses its drug candidates to international pharmaceutical companies during varying stages of the development phases, but not later than Phase II clinical trials. There is an established international biotechnology industry based on these principles, with established licensing precedents.

The disease target of our lead project is sexually transmitted disease prevention in a multibillion dollar market and there are currently no pharmaceutical products on the market that work effectively.

In primate studies, our product VivaGel™ was 100% effective in the control of HIV infection. It is also showing promise for the control of genital herpes and Chlamydia. The high selectivity of the compound is demonstrated by trials which have shown that the compound is not harmful to the natural vaginal flora.

Our dendrimer compounds have also demonstrated high activity in a range of respiratory viruses including flu, RSV, adeno-virus and exotic potential germ warfare viruses. One group of our dendrimers has been shown to have very broad activity against RNA virus. SARS is an RNA virus and hence the strong international interest in testing our compounds against the SARS virus.

I have never been more confident about Starpharma's international technology position and our ability to develop new nanotechnology based drugs against major diseases.

Our enthusiasm over the considerable potential of the Starpharma technology has to be tempered by financial realities of the current investment environment. Pharmaceutical product development takes time and money, and it also takes time to negotiate significant licensing deals with major pharmaceutical companies.

In the current financial environment it would be very difficult to raise the new capital necessary for drug development without a major dilution of shareholder equity. Our financial strategy is therefore:

- To streamline our operations to a level where we have sufficient current cash reserves for at least the period to June 2005 assuming no future income, whilst maintaining core functions and capabilities.

- To focus our development programs on areas where we can attract major international grant funding, in particular HIV prevention, and anti-viral and anti-toxin bio-defence. This funding support adds value to our lead projects without causing shareholder dilution. Starpharma has been very successful in the past in attracting Australian and overseas grant funding and has established a network of international collaborators who are world leaders in our target disease areas.

- To actively seek collaborations and licensing with major pharmaceutical companies and there is now strong interest in our polyvalent technology.

We consider this to be a prudent strategy and, as funds become available, we will be able to expand our operations rapidly. We have a number of potential commercial projects in Starpharma's pipeline. We also have state of the art chemistry facilities at our Melbourne laboratories together with an extensive international biology research and testing network.

The pharmaceutical industry is recognising the potential of polyvalence in drug development. This is an area in which Starpharma is a world leader. If the recent progress continues the rewards for the Company and shareholders will be high.

Yours sincerely,

John W Raff

Dr John W Raff
Chief Executive Officer

30 April 2003

UPDATE AND QUARTERLY CASH FLOW REPORT FOR PERIOD ENDED 31 MARCH 2003

Starpharma Pooled Development Limited (ASX:SPL) is pleased to present its update and quarterly cashflow report for the period ended 31 March 2003.

SUMMARY

- Starpharma dendrimer compounds being tested against SARS virus in the US.
- Starpharma advances HIV prevention (VivaGel™).
- Anti-viral and anti-toxin bio-defence – grant opportunities in the pipeline.
- Starpharma investee company DNT successful in securing second significant US Defense Department grant.
- DNT incorporated in the US and financially independent.
- Starpharma cash reserves still provide over 2 years of current level operations without any further income.

The cash balance for the Starpharma group as at the end of the period was $8.7m. The most significant impact on cash outflow during the quarter was payment of the final balance of our investment in Dendritic Nanotechnologies Ltd (DNT). Conversion of DNT into a US entity has taken place and Starpharma now holds 49.99% of Dendritic Nanotechnologies Inc., incorporated in Delaware.

DNT has been successful in securing a second significant US Defense Department grant, the details of which remain confidential at this stage. DNT is also working with industry to introduce dendrimer technology in a range of commercially significant applications. Starpharma has no further funding obligations to DNT and from this point DNT will be financially independent of Starpharma. We believe Starpharma's equity investment in DNT has significant current value and that the value of this asset will continue to increase. The commercialisation rights over pharmaceutical applications arising from DNT's intellectual property have been licensed to Starpharma and we are confident that this will be extremely valuable in the future. DNT is also important in raising Starpharma's profile in the US at both government and industry level.

Excluding the final equity payment to DNT, the cash outflow for the quarter was $1.4m as previously projected. This amount included overseas and local expenditure associated with the preparation of the submission of an IND to the US Food and Drug Administration (FDA) for approval to begin human clinical safety trials of our vaginal microbicide product VivaGel™, of which the active ingredient is SPL7013. Additional studies have been completed, results have been reviewed and Starpharma has been advised by its toxicology and regulatory consultants that it will be in a position to lodge its IND submission to the FDA in June 2003. VivaGel™ is recognised internationally as a major product opportunity for HIV prevention as well as for the prevention of other significant diseases such as Chlamydia. Additional primate studies have commenced to investigate the range of applications for VivaGel™, and these are being carried out at no cost to Starpharma.

Starpharma's strategy is to maintain its current level of core operations in Australia, and we have sufficient funds to continue at this level until at least June 2005 without additional funding. We have every expectation that we will continue to obtain significant additional external funding support. We are focusing our development programs on areas where we can attract major international grant funding, in particular HIV prevention and anti-viral and anti-toxin bio-defence. We also have significant dendrimer based anti-cancer and HBV programs. Starpharma's compounds are currently being tested for specific high priority applications in the US, and a number of large grant opportunities that would allow accelerated development of our projects, are in the pipeline.

For example, in relation to SARS virus, Starpharma's collaborative projects with US respiratory virus leaders have previously shown several of our dendrimer compounds have broad spectrum activity against a wide range of RNA viruses. The SARS virus belongs to this group and we have therefore been requested to urgently provide these compounds for testing at high security SARS testing facilities in the US. Starpharma has already despatched these compounds for testing against SARS.

John W Raff

John W Raff
Chief Executive Officer

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