Acrux Annual Report 2012

Financial Metrics

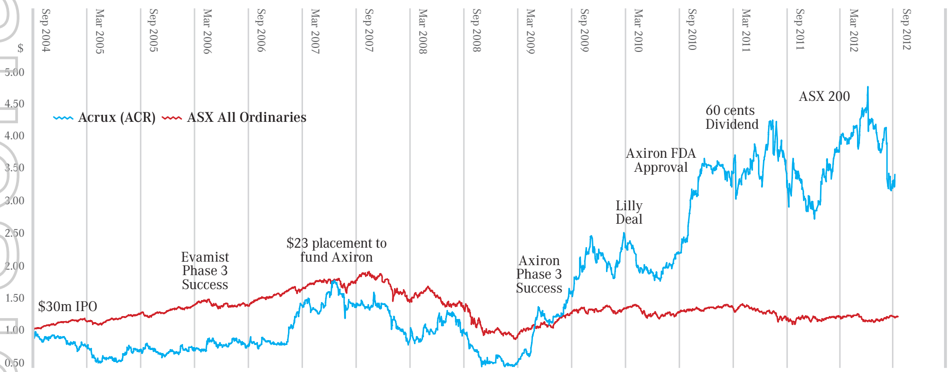
Financial Metrics	2011/12	2010/11	2009/10
Total Shareholder Return (tax free)	+28%	+120%	+60%
Capital growth per share	$0.86	$1.58	$0.68
Special dividend per share	-	$0.60	-
Final dividend per share	$0.08	-	-
Earnings Per Share	$0.04	$0.35	$0.29
Profit After Tax	$7 million	$57 million	$47 Million
Revenue	$11 million	$93 million	$56 million

Profit After Tax 2011/12

$7m

Share Price Since Listing

Acrux Share Price $



Total shareholder return 2011/12

+28%

Business Milestones

- ACR promoted to S&P / ASX 200 index (September 2011)
- Recuvyra® approved for marketing in Europe (October 2011)
- Axiron® underarm administration patent granted to 2026 in Australia (November 2011), New Zealand, Singapore and South Africa
- Axiron applicator patent granted to 2030 in United States (January 2012)
- Estradiol spray notice of approval for marketing in Switzerland (January 2012)
- Axiron approved for marketing in Canada (April 2012)
- Axiron approved for marketing in Australia (May 2012)
- Recuvyra approved for marketing in United States (June 2012)
- Number of prescriptions for transdermal testosterone therapies in United States in first half of 2012 were 30% higher than in first half of 2011
- Axiron share of transdermal testosterone therapy prescriptions in United States grew to 12.5% (August 2012)

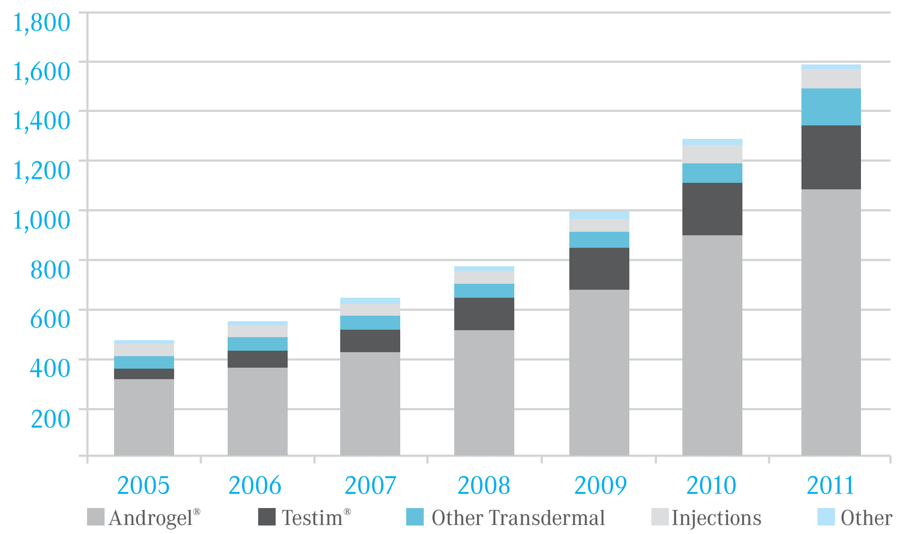
Axiron® approved for marketing in Canada and Australia

Business Outlook for 2012/13

- Growth of Axiron net sales in United States
  - Market growth
  - Market share growth
  - Reduction in gross-to-net sales deductions
- Launch of Axiron in Canada and Australia
- Outcome of Axiron marketing applications in Europe
- Continued examination of Axiron underarm administration patent in United States
- Launch of Recuvyra in United States and Europe
- Resolution of estradiol spray distribution in United States
- Appoint a distributor for estradiol spray in Europe
- Evaluation of new product opportunities

Growth of Axiron® net sales in United States

US Testosterone Therapy Market (US $million)



H1 2012 year-on-year growth

30%

Share of US Transdermal Prescriptions

	April 2011	July 2012	Change
Androgel® 1%	*72%*	*30%*	*-42%*
Androgel® 1.62%	*-*	*33%*	*+33%*
Total Androgel®	72%	63%	-9%
Testim®	20%	16%	-4%
Axiron®	-	**13%**	**+13%**
Androderm®	7%	5%	-2%
Fortesta®	1%	3%	+2%
Total Transdermal	100%	100%	

Axiron® market share gain

+13%

CHAIRMAN'S LETTER

Ross Dobinson
Chairman

Dear Shareholder,

2012 has been an eventful year for Acrux. The primary focus of the share market has been on two issues regarding Axiron – the fact that we have not yet achieved grant of the axilla patent in the United States, and the disparity between gross and net sales achieved by Lilly during the initial entry into a high growth market. The Board's confidence in being able to address both issues effectively was reflected in the dividend declared in August. The Board is also confident that the measures necessary during the launch period will no longer be required now that Axiron is an established product in a high growth market. We anticipate that the net sales will grow and enable Acrux to achieve the milestones which, with improved royalties, will enable us to significantly increase dividend distributions.

We are frequently asked about the Company's Pooled Development Fund ("PDF") status. Acrux has been an extraordinarily successful example of the PDF Act's application and we do not expect our PDF status to change. This position was reflected in the narrative accompanying the August dividend, which advised the Board's intention to retain franking credits for future capital management initiatives.

The Board's commercial depth has been significantly enhanced with the appointment of Bruce Parncutt and Ross Barrow. These appointments reflect the transition of the Company from primarily undertaking drug development to a profitable pharmaceutical business and this transition is also reflected in our staffing structure and the significant reduction in the Company's operating costs. Our core competencies have been retained, as we are currently assessing further applications of Acrux's intellectual property.

Axiron's prospects will be enhanced in 2013 by the Canadian and Australian launches of Axiron early in the year, followed by Europe later in the year. Regulatory applications will be lodged in other key jurisdictions in due course. Since Acrux's average royalty rate increases as worldwide annual net sales increase, the market launches outside the US will enhance shareholder value. Axiron's competitors in the US market are not global brands. Axiron is likely to be the only testosterone therapy brand which is universally recognised following market launches by Lilly outside the US over the next two years.

The growth scenario for Axiron has led to a significantly higher institutional presence on Acrux's share register, and we expect this trend to continue. The Company will maintain its current competencies as these are integral to the relationship with Lilly and the potential to further exploit Acrux's core technologies. Acrux will continue to optimise dividends rather than funding speculative research and development. A number of complementary product opportunities have been investigated and we will continue to assess proposals that have the potential to leverage the value of our core intellectual property assets.

I would like to comment briefly on the Company's share price. The two issues referred to in the opening paragraph have been the major factors depressing the share price since June 2012. The impacts have arguably been compounded by machinations that occur in many liquid listed shares. This has been further reinforced by sentiment in a volatile market. Without wanting to diminish the importance of a strong, consistent share price the Board is focused on the fundamentals of the Company. We are addressing our intellectual property position and are confident that the axilla patent grant in the US will be achieved. We are also confident that the gap between gross and net sales of Axiron will be addressed in the near term.

In our operations we have reduced our costs without sacrificing our core skill sets. Acrux is now a key player in one of the strongest growth segments of a huge and growing industry, with the international roll-out of Axiron as a leading global brand occurring through a well-planned, well executed strategy. We are well advanced with initiatives to realise value in some of our other products and we are investigating opportunities that could extend our product range significantly. The Company is well positioned for future growth.

Ross Dobinson
Chairman

Acrux reported its 3rd consecutive year of profit in the financial year 2011/12 and a first regular dividend of 8 cents per share was declared for the year.

Dividends and capital gains are both exempt from tax for shareholders because Acrux is a Pooled Development Fund. Further details of these tax concessions for shareholders are on page 68 of this Annual Report.

The significant increase in the market value and liquidity of Acrux's shares resulted in promotion into the S&P/ASX 200 index on 16 September 2011.

A number of milestones were achieved in the worldwide commercialisation of Axiron® by Eli Lilly. The strong growth of the testosterone therapy market continued and Axiron's share of transdermal therapy prescriptions grew to nearly 13%. The first marketing authorisations outside the United States were received in Canada and Australia. The underarm administration patent was granted in some markets and the patent examination process continued in the United States.

In addition, Recuvyra®, the first animal health product utilising Acrux's delivery technology, was approved for marketing in both the United States and Europe.

US testosterone therapy market

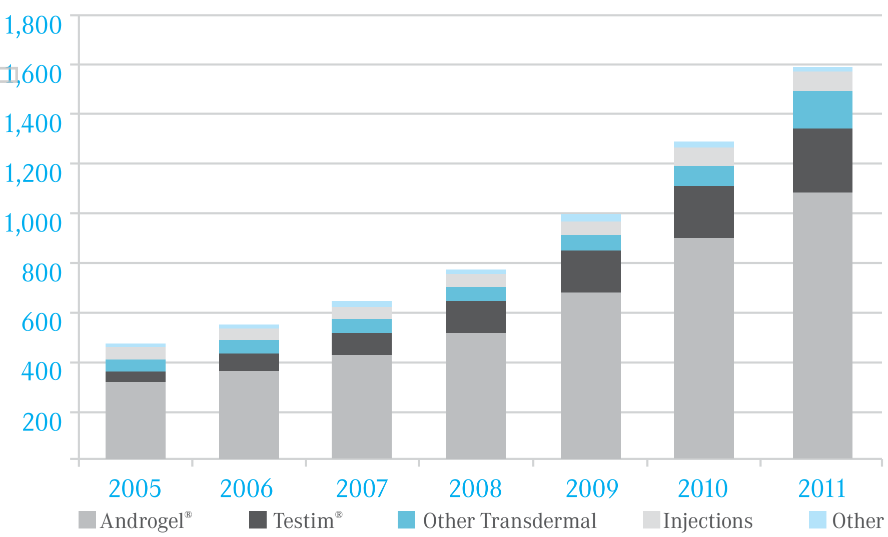
Testosterone therapy sales in the United States were approximately US$1.6 billion in 2011, which was 24% higher than 2010. The compound annual growth rate over 5 years was approximately 25%. Transdermal therapies (topical gels, patches and Axiron) comprised 93% of sales in value terms.

In the first half of 2012, total prescriptions for transdermal therapies were 30% higher than in the first half of 2012.

If this growth rate is maintained in the second half, total sales of transdermal testosterone therapies in the US for 2012 are expected to reach $1.9 billion.

The rapid growth in sales has been driven by increasing awareness amongst both physicians and patients of testosterone deficiency and its effects, as well as an increasing pool of potential patients as the overall male population ages.

US testosterone therapy market (US$m)



H1 2012 year-on-year growth

30%

Lilly's commitment to men's health and Axiron

Lilly has established a reputation as a leader and innovator in men's health, first with its erectile dysfunction treatment Cialis and now with Axiron.

Cialis was launched second, or in some cases third, after Viagra which held a dominant market position in the erectile dysfunction markets. However, Cialis now approximates Viagra in share of markets globally, notably driven by sales outside the United States, which exceed US$1 billion.

Lilly's achievements with Cialis globally and the synergy between the prescribing groups for Cialis and Axiron were an important factor in Acrux's decision to licence worldwide commercial rights for Axiron to Lilly.

Lilly continues to make significant investments in order to bring the benefits of Axiron to as many patients as possible. These investments, which are intended to improve the prospects for Axiron in both the short term and the longer term, include the following:

- Promotion to specialist physicians, primary care physicians and patients
- Expansion of manufacturing capacity to meet anticipated rapid growth in demand for the United States and other markets in 2013 and beyond
- Additional clinical studies to increase understanding of the therapy and its benefits

Cialis® (tadalafil) tablets
Axiron® (testosterone) topical solution CIII

The US healthcare system

The managed healthcare system in the US is complex involving multiple organisations and channels. A large number of individual managed care organisations (MCOs) receive premiums from members and meet the cost of members' healthcare, including the cost of approved prescription medicines.

Typically the MCO will require its members to make a co-payment towards the cost of medicines that are prescribed by doctors. The amount of co-pay required from the patient may vary depending on whether the medicine is on a list ("formulary") of recommended medicines. The formulary may have more than one co-pay tier, with different levels of co-pay depending on which tier the medicine is listed.

When a new medicine is launched, the pharmaceutical company is required to negotiate a contract with each MCO, or with a Pharmacy Benefit Manager (PBM) that manages medicine prescriptions for the MCO, in order to gain access to its formulary. MCOs and PBMs may wait 12 months after a product launch before they review and add new products.

Whilst formulary access is building, pharmaceutical companies may provide financial assistance to the patient so that he or she can afford the co-pay required for the medicine. Since launch, Lilly has provided assistance, so that the out of pocket expense associated with Axiron is similar to established testosterone therapies that already have formulary access.

Lilly has made good progress in achieving access to MCO and PBM formularies and notably the largest PBM added Axiron to its national formularies effective 1 July 2012. Acrux anticipates that Axiron's formulary access will improve further in 2013.

Axiron gross and net sales, royalties and milestone payments

Lilly launched Axiron to specialists (Urologists and Endocrinologists) in the United States in April 2011 and subsequently to primary care physicians in June 2011. Primary care physicians are the larger segment of the market, but the specialist segment is important in its own right, as well as acting as opinion leaders for the primary care physicians.

Since 2005, the topical testosterone gel Androgel® has held a dominant position in the market. In April 2011, prior to the launch of Axiron, Androgel's share of total prescriptions of transdermal testosterone therapies was approximately 72%. In July 2012 this had fallen to approximately 63%, with Axiron gaining share of nearly 13%.

Competition amongst the market leading products intensified in the first half of 2012, which slowed the rate of increase in Axiron's market share. However, Acrux is confident that Lilly's investments will result in its share continuing to grow.

In the first half of 2012, gross sales of Axiron were in line with Acrux's expectation, with higher market growth offsetting slightly lower market share. However, net sales (gross sales less rebates, discounts and returns) were lower than Acrux's expectation, reduced by the patient financial assistance referred to above. Acrux expects the gap between gross and net sales to reduce from the fourth quarter of 2012 as the assistance decreases.

Under the agreement between Acrux and Lilly, Acrux receives royalties on net sales of Axiron, and in addition is entitled to receive up to US$195 million in milestone payments which are related to the net sales performance of Axiron. The first milestone payment of US$25 million is payable when the worldwide net sales of Axiron in a calendar year equal, or exceed US$100 million, which Acrux expects to occur in the 2013 calendar year, so that the milestone payment of US$25 million will be earned in Acrux's 2013/14 financial year.

Axiron royalties are percentages of worldwide net sales. Net sales in a calendar year are recorded in tiers, with each higher tier attracting a higher royalty percentage up to a maximum percentage. Therefore the average royalty percentage was at the initial rate of 11% in the first year and is expected to increase within the percentage range as net sales increase over time.

Multiple factors are expected to combine to drive future growth of royalties from US$6 million that was earned in the 2011/12 financial year:

- US market growth
- US market share growth
- Reduction in the gap between gross and net sales
- Addition of sales from markets outside the US
- Increase in the average royalty rate as worldwide net sales increase

Share of US transdermal testosterone therapy prescriptions

	April 2011	July 2012	Change
Androgel® 1%	72%	30%	-42%
Androgel® 1.62%	-	33%	+33%
Total Androgel®	72%	63%	-9%
Testim®	20%	16%	-4%
Axiron®	-	13%	+13%
Androderm®	7%	5%	-2%
Fortesta®	1%	3%	+2%
Total Transdermal	100%	100%	

Axiron® market share gain

+13%

Axiron outside the United States

Lilly distributes products in 125 countries, including high growth markets in Asia and South America, which Acrux believes could be attractive future markets for Axiron. Lilly is responsible for funding and obtaining regulatory approvals to market Axiron in territories outside the United States. Good progress was made during the year, with marketing authorisations granted for Canada in April 2012 and Australia in May 2012. Applications are under review by regulatory authorities in a number of countries in Europe and South America. Applications in other countries are in preparation. Acrux expects to receive royalties from the first sales outside the United States during the 2012/13 financial year.

Testosterone therapy sales outside the United States are currently modest compared with US sales. However, less than 10 years ago, US sales were approximately US$250 million, which is equivalent to the testosterone therapy sales for markets outside the US in 2011. Acrux believes that there is the potential to grow the market very significantly by increasing the awareness and understanding of testosterone therapy in those markets. Acrux is encouraged by the impressive growth in sales of Cialis outside the US that has been achieved by Lilly.

Axiron patent protection

In the United States, Axiron is currently protected by granted patents describing the formulation and delivery system, and the applicator device, with these patents expiring in 2017 and 2030 respectively. Acrux is pursuing additional protection until 2026 through a new patent describing the underarm (axilla) application method. The axilla patent has already been granted in Australia, New Zealand, Singapore and South Africa.

In June 2012, the US Patent and Trademark Office (USPTO) raised two objections to the pending claims contained in Acrux's axilla application patent. Acrux has confidence in the claims and is preparing a response to the objections, which will be filed in the second half of 2012.

Axiron® approved for marketing in Canada and Australia

Product portfolio

Product	Territory	Commercial partner	Status
Axiron	US	Lilly	Marketed
	Canada, Australia		Launch pending
	Europe		Registration
	Others		
Recuvyra	US, Europe	Lilly (Elanco)	Marketed
Other animal health	US, Europe		In development
Estradiol spray	US	KV Pharmaceutical	Marketed
	Switzerland	Vifor Pharma	Approved
	Other Europe	Available	Approved in Sweden
	South Africa	Aspen Pharmacare	Registration
	South Korea	Dream Pharma	Registration
Luramist	Worldwide	Available	Phase 2
Contraceptive spray	Worldwide	Available	Phase 1
Nicotine	Worldwide	Available	Formulation
NSAIDs	Worldwide	Available	Formulation

Animal health products

As well as commercialising Axiron, Lilly has an exclusive worldwide licence to develop and commercialise animal health products utilising Acrux's technology to deliver medicines through the skin of animals. Acrux earns milestone payments on the approval of marketing applications, as well as royalties on worldwide sales.

Lilly's animal health business, Elanco Animal Health has grown significantly during the time since the collaboration with Acrux commenced and is an important contributor to Lilly's overall results.

Elanco is advancing the development and registration of a number of products utilising Acrux's delivery technology. During the year marketing authorisations were granted for Recuvyra, the first of these products, by the FDA and by the European Medicines Agency (EMEA). Recuvyra, which contains the active ingredient Fentanyl, is for the control of pain associated with orthopaedic and soft tissue surgery in dogs. Following these approvals, Acrux earned milestone payments totaling $1.5 million from Lilly and will begin to earn royalties on sales of the product in the 2012/13 financial year.

Recuvyra® approved for marketing in US & Europe

Estradiol spray

The first product developed by Acrux was the estradiol spray for women to treat menopause symptoms. The spray was approved by the FDA in 2007 and launched into the US market in 2008. Branded Evamist®, the spray is distributed in the United States by Acrux's licensee KV Pharmaceutical (KV). In 2009, KV underwent a significant restructuring of its business, including a reduction in the size of its sales force, following a number of product recalls and the suspension of its manufacturing activities by the FDA. Evamist sales in the United States have remained below expectations, with prescription numbers currently at approximately 13-14,000 per month. Royalties from Evamist sales do not provide Acrux with significant revenues.

In August 2012, KV filed petitions seeking relief under chapter 11 of the United States Bankruptcy Code. Acrux has engaged US legal advisors and expects the future distribution of the estradiol spray in the United States to be resolved during the 2012/13 financial year.

In the meantime, Acrux is advancing the commercialisation of the estradiol spray in markets outside the United States. The Medical Products Agency (MPA) in Sweden has granted Acrux a marketing authorisation for this product, which enables marketing approvals to be obtained in other European Union countries under a Mutual Recognition Procedure. Discussions are in progress with potential distribution partners for Europe. In addition, Acrux's distributor in Switzerland has received a marketing authorisation and distribution partners in South Korea and South Africa currently have marketing applications under review by regulatory authorities in those countries.

Other products

Acrux continues to evaluate other product opportunities, considering both the commercial value and the technical risk. Opportunities may utilise Acrux's core transdermal delivery technology, or potentially other technologies. To date Acrux has chosen not to invest significant funds into the development of other products. Opportunities that the Acrux board believes merit investment will be brought to shareholders' attention.

Finance

	30 June 2012 $m	30 June 2011 $m	30 June 2010 $m
Product agreement revenue	9.0	89.6	54.9
Interest and grant income	1.7	3.9	1.2
Total revenue	**10.7**	**93.5**	**56.1**
Total expenditure	**(5.8)**	**(12.5)**	**(12.8)**
Profit before capitalised development costs	4.9	81.0	43.3
Capitalised Axiron	-	1.4	5.6
Capitalised estradiol	-	0.1	0.3
Profit before tax	**4.9**	**82.5**	**49.2**
Income tax benefit/(expense)	2.5	(25.4)	(2.6)
Profit after tax	**7.4**	**57.1**	**46.6**
Earnings per share	**4 cents**	**35 cents**	**29 cents**
Net cash (outflow)/inflow before financing	**(2.5)**	**64.4**	**42.8**
New share capital	-	8.0	1.3
Dividend paid	(0.6)	(99.0)	-
Net cash	**30.0**	**33.2**	**58.6**

Revenue

Total revenue for the financial year was $10.7 million (2011: $93.5 million). Revenue related to product agreements was $9.0 million (2011: $89.6 million), including Axiron royalties of US$6 million. The prior year included US$87 million in milestone revenue from Eli Lilly. Interest income reduced to $1.6 million (2011: $3.7 million), as cash reserves were reduced by the payment of $99 million in a special dividend to shareholders in April 2011.

Expenses

Reported operating expenditure was $5.8 million (2011: $11.0 million). Royalty payments reduced to $0.3 million (2011: $3.0 million), as the prior year included royalty due on the US$87 million milestone revenue from Eli Lilly. A foreign currency gain of $0.2 million was recorded for 2012 financial year, compared to a foreign currency loss of $1.8 million for the prior year, the result of appreciation of the Australian dollar versus the US dollar prior to settlement of the milestone revenue.

The reported operating expenditure for the prior year of $11.0 million was reduced by the capitalisation of product development expenses. No development expenses were capitalised for the financial year to 30 June 2012. Total expenditure, including the amounts capitalised, for external research and development expenses reduced to $0.9 million (2011: $1.7 million) and for employee benefits expense reduced to $2.6 million (2011: $3.6 million). The reduction in total employee benefits expense was the result of a reduction in the number of staff.

Income tax benefit of $2.5 million was recorded for the financial year compared to an income tax expense of $25.4 million for the prior year. Tax expense of $1.6 million was offset by tax benefit of $4.1 million due to tax losses from excess imputation credits on dividends received by the parent entity as well as amendments to prior year tax returns to include additional deductions due under the research and development tax concession.

Cash flow

Net cash outflow for the reported period was $3.1 million (2011: $26.7 million). Cash reserves at the end of the period were $30.0 million (30 June 2011: $33.2 million).

Receipts from product agreements were $6.4 million (2011: $86.0 million). The prior year included the receipt of the Axiron milestone revenue from Eli Lilly. Interest receipts added $1.4 million (2011: $3.9 million), on reduced cash reserves following payment of the special dividend. Payments to suppliers and employees reduced to $5.6 million (2011: $9.6 million). Income tax of $4.6 million was paid during the year (2011: $15.3 million).

The purchase of plant and equipment produced a small outflow for investing activities of $0.1 million (2011: $0.7 million). The prior year outflow of $0.7 million included payments for capitalised development expenses, offset by the sale of plant and equipment to Eli Lilly.

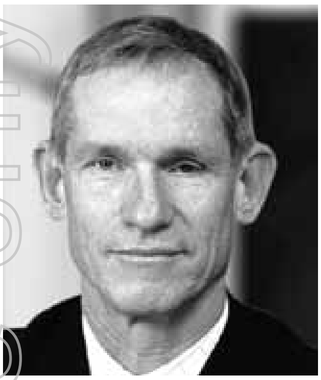
Outlook

Acrux receives royalties from Lilly on worldwide net sales of Axiron and may also receive total net sales milestone payments of US$195 million. Acrux's financials in the forseeable future will be largely determined by this revenue.

Axiron royalties are percentages of worldwide net sales. Net sales in a calendar year are recorded in tiers, with each higher tier attracting a higher royalty percentage up to a maximum percentage. Therefore the average royalty percentage was at the initial rate of 11% in the first year and is expected to increase within the percentage range as net sales increase over time.

The first sales milestone of US$25 million is payable when the worldwide net sales of Axiron in a calendar year equal, or exceed US$100 million. Acrux expects the first milestone of $100 million net sales to be exceeded in the 2013 calendar year, so that the milestone payment of US$25 million will be earned in Acrux's 2013/14 financial year. Acrux expects to earn a milestone payment of $50m in the 2014/15 financial year and milestone payments totalling US$120 million over the 4 financial years commencing 2018/19.

Acrux's operating expenditure is currently running at approximately $0.5 million per month, with a proportion engaged in ongoing work related to Axiron, which is reimbursed by Lilly. Acrux pays a royalty to Monash Investment Trust until February 2017 of 3.5% of Acrux's royalty and milestone income.



Ross Dobinson, BBus

Executive Chairman

From 1 July 2012, Executive Chairman; prior to 1 July 2012, Non-Executive Chairman, member of the Human Capital Committee and member of the Audit and Risk Committee with financial qualification. Ross has been a Director since 1998 and was appointed Non-Executive Chairman in January 2006 and then Executive Chairman on 1 July 2012. He is a founder and former CEO of Acrux. Ross has a background in investment banking and stockbroking. He is currently Managing Director of TSL Group Ltd, a corporate advisory company specialising in establishing and advising life sciences companies. He has also been a director of Starpharma Holdings Limited (ASX: SPL), since May 1997 and is a director of a number of unlisted companies, including TPI Enterprises Ltd and Hexima Limited. Ross was executive chairman of Hexima Limited when the company was listed on ASX from July 2010 to June 2011.

Bruce Parncutt, BSc MBA

Non-Executive Director, member of the Human Capital Committee and Chair of the Audit and Risk Committee with financial qualification.

Bruce joined the board on 30 April 2012. His career spans almost 40 years in investment management, investment banking and stockbroking including seven years as Chief Executive of listed securities firm McIntosh Securities (1990 – 1996) and three years as Senior Vice President of Merrill Lynch (1997 – 1999). His experience includes extensive involvement in financial analysis, merger and acquisition transactions, capital-raisings, and investment in companies across a broad spectrum from early stage to mature public companies. He holds a Bachelor of Science, an MBA, and is a Member of the Financial Services Institute of Australasia. Bruce is Chairman of the investment and corporate advisory firm, Lion Capital. He is a Trustee of The National Gallery of Victoria, Chairman of the NGV Foundation, and Chairman of listed Praemium Limited (ASX: PPS), from August 2011. He was previously a director of ASX listed Stuart Petroleum Limited (from August 2010 to May 2011), McIntosh Securities Limited, Australian Stock Exchange Limited and Vision Systems Limited.

Ross Barrow, BSc (Hons) MBA

Non-Executive Director, Chair of the Human Capital Committee and member of the Audit and Risk Committee

Ross joined the board on 1 April 2012. He has extensive experience in the life sciences sector. Ross was Chief Operating Officer and a director of Vision BioSystems Limited during the period when the company became a leader in the global histopathology market. Following acquisition by Danaher Corporation, Ross played a pivotal role overseeing the global integration of the company with Danaher's subsidiary, Leica Microsystems GmbH. Ross is currently the Chief Executive Officer and a director of Paranta Biosciences Limited.

Jon Pilcher, BSc (Hons) ACA

Chief Financial Officer and Company Secretary

Jon joined Acrux in October 2002 and was appointed Chief Financial Officer in March 2004. He was reappointed Company Secretary in July 2006, having previously held that position from June 2003 to March 2005. This period included the listing of Acrux on the Australian Stock Exchange. Prior to joining Acrux, Jon was a Senior Manager at ANZ Banking Group and spent seven years with international pharmaceutical groups, Medeva and Celltech, based in the UK, where he held senior financial positions in the Research & Development and Corporate functions. He qualified as a Chartered Accountant in 1991 and holds a Bachelor of Science (in Biotechnology) from the University of Reading in the UK.

Dr Clive Blower, BSc (Hons) PhD

Chief Technical Officer

Clive joined Acrux in October 2007, successfully leading the Chemistry, Manufacturing and Controls (CMC) program for the approval, manufacture and launch of Axiron.
Prior to that, Clive was at Hospira (previously Faulding Pharmaceuticals, then Mayne Pharma) where he held a number of senior management positions, the most recent of which was Development Manager, Injectable Development.
He obtained his Doctorate in Chemistry from Monash University in 1992 and has built experience in all stages of drug development from concept to commercialisation, having contributed to the development and launch of more than 25 pharmaceutical products.

Delivering to patients and shareholders through product innovation

This statement summarises the corporate governance policies and procedures adopted by the board and discloses the extent to which the Company has followed the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("ASX Principles") during and since the reporting period.

The Company's corporate governance principles, details of which can be found on the Company's website (www.acrux.com.au), comprise:

- statement of corporate governance principles
- code of conduct
- board charter
- audit and risk committee charter
- human capital committee charter
- continuous disclosure and shareholder reporting policy
- share trading policy.

In addition, the website contains summaries of the Company's:

- risk management policy
- director and senior executive performance policies
- whistleblower policy.

1. The Board of Directors

1.1 Board Role and Charter

The board has the primary responsibility for guiding and monitoring the business and affairs of the Company, including compliance with the Company's corporate governance objectives. The board's role is set out in the board charter which establishes the relationship between the board and management and describes their respective functions and responsibilities. The board is responsible for the oversight and performance of the Company, including matters such as:

(a) evaluating, approving and monitoring the strategic and financial plans and performance objectives for the Company;

(b) evaluating, approving and monitoring the annual budgets and business plans;

(c) evaluating, approving and monitoring major capital expenditure, capital management and all major corporate transactions including the issue of any securities of the Company;

(d) monitoring and approving all financial reports and all other reporting and external communications by the Company;

(e) evaluation of board and individual director performance;

(f) appointing, removing and managing the performance of, and the succession planning for, a chief executive officer or an executive director;

(g) overseeing and ratifying the terms of appointment and, where appropriate, removal, of senior management, including their remuneration;

(h) monitoring senior management performance and their implementation of strategy and ensuring appropriate resources are available;

(i) monitoring the Company's performance in relation to best practice principles of corporate governance;

(j) approving and monitoring the Company's risk management strategy and internal controls and accountability systems and their effectiveness;

The board has delegated the day to day management of the Company to an executive director who, in turn, may delegate to senior management. The delegations to the executive director include:

(a) developing business plans, budgets and company strategies for consideration by the board and, to the extent approved by the board, implementing those plans, budgets and strategies;

(b) operating the business of the Company within the parameters determined by the board and keeping the board promptly informed of all developments material to the Company and its business;

(c) identifying and managing operational risks and formulating strategies for managing those risks for consideration by the board;

(d) managing the Company's financial and other reporting mechanisms and control and monitoring systems to ensure that they capture all relevant material information on a timely basis and are functioning effectively.

1.2 Board Composition

The board seeks to achieve a mix of skills and diversity that enables it to most effectively carry out the functions and responsibilities set out in the board charter. This includes:

- commercial and technical expertise and experience gained in the pharmaceutical industry;
- expertise and experience in business management and financial markets; and
- relevant relationships in the pharmaceutical industry and in the business community.

During the year, the composition of the board changed significantly, reflecting a new phase for the business. Barrie Finnin and Ken Windle, who had each served as non-executive directors for more than ten years, retired and were replaced by Ross Barrow and Bruce Parncutt. Ross and Bruce bring highly regarded commercial and technical skills to the board. In addition, Richard Treagus stepped down as chief executive officer and managing director on 30 June 2012. The board determined that the current requirements of the business were best served by expanding the responsibilities of senior managers Jon Pilcher and Clive Blower, directly overseen by the Chairman Ross Dobinson in an executive director capacity. Ross, Jon and Clive have respectively 13, 10 and 5 years' experience managing the Acrux business.

The names of the directors, the year of their appointment or retirement, their status as non-executive, executive or independent director and whether they will seek election at the 2012 annual general meeting are set out in the table below. The details of their background, skills and experience are set out on pages 10-11 of this report.

Name	Appointed/Retired	Non-Executive	Executive	Independent	Seeking election at 2012 AGM
Ross Dobinson	Appointed 1998	No	Yes	No	No
Ross Barrow	Appointed 1 April 2012	Yes	No	Yes	Yes
Bruce Parncutt	Appointed 30 April 2012	Yes	No	Yes	Yes

1.3 Director Independence

In accordance with the recommendations of ASX Principle 2, the board charter requires the board to include a majority of non-executive independent directors, a non-executive independent chairman and to have different persons filling the roles of chairman and chief executive officer.

At all times during and since the end of the financial year a majority of board members were independent, non-executive directors, as recommended in ASX Principle 2.1.

The chair of the board, Ross Dobinson, was an independent non-executive director until 1 July 2012, when he became and executive director. Notwithstanding the board charter, as explained above the board determined that this arrangement would better serve the current needs of the business than appointing a new chief executive officer. The board will continue to review this assessment as the business progresses.

The chair is responsible for the leadership of the board, for ensuring that the board functions effectively and, where appropriate, communicating the views of the board to the public. The chair sets the agenda for board meetings, and manages their conduct and facilitates open discussion between board members, between the board and management and with the public.

1.4 Terms of Director Appointment

The non-executive directors do not have formal letters of appointment. The remuneration of the non-executive directors and the terms of appointment of the executive director are disclosed in the Remuneration Report.

1.5 Access to Information and Independent Advice

All directors have unrestricted access to employees of the Company and, subject to the law, access to all company records and information held by the Company, its employees and advisors. The board receives for each board meeting an agenda, detailed financial and operational reports and the reports of the board committees.

Each director is entitled to obtain independent professional advice at the Company's expense for the purpose of assisting them in performing their duties. A director who wishes to obtain such advice must first obtain the approval of the chair (which approval must not be withheld unreasonably) and must provide the chair with the reason for seeking such advice, the identity of the person from whom the advice will be sought and the likely cost of obtaining such advice. Except in certain circumstances detailed in the board charter, advice obtained in this manner is made available to the board as a whole.

1.6 Human Capital Committee

The members of the human capital committee of the board were:

- from 1 July 2011 to 31 August 2011 – Ken Windle (Chair), Barrie Finnin and Ross Dobinson;
- from 1 September 2011 to 30 April 2012 – Ken Windle (Chair) and Ross Dobinson; and
- from 1 May 2012 – Ross Barrow (Chair) and Bruce Parncutt.

The committee met once during the year ended 30 June 2012, with all members attending. Members of the committee are chosen having regard to their skills and experience in relation to the matters for which the committee is responsible. Members of the committee have unrestricted access to company records, management and advisers and the external auditors.

The committee's role, which is set out in its charter, in general terms is to:

(a) establish a formal and transparent procedure for the selection and appointment of new directors to the board;

(b) identify suitable candidates to fill board vacancies as and when they arise and nominating candidates for the approval of the board;

(c) consider processes for the orientation and education of new directors and developing ongoing policies to facilitate continuing education and development of directors;

(d) assess periodically the skills required for each director to discharge competently the director's duties;

(e) regularly review the structure, size and composition of the board and the effectiveness of the board as a whole;

(f) establish and conduct an appropriate evaluation of the board's process and of existing directors, including an evaluation of whether each director is contributing the time required of him or her for board duties;

(g) recommend to the board a policy and framework for senior employees' remuneration;

(h) review and monitor the implementation of the human resources plan of the Company and senior management succession planning; and

(i) review and recommend to the board the total individual remuneration package of each member of senior management, including any bonuses, incentive payments, and participation in any share or share option plans in accordance with the policy and framework for senior employees' remuneration.

In accordance with the recommendations of ASX Principle 2.4, the committee's charter further provides that, where practical, a majority of the committee must be independent non-executive directors and the chair must be a non-executive director who is not the chair of the Company. Executive directors may not be members of the committee. These requirements were met at all times during and since the end of the financial year. A further recommendation of ASX Principle 2.4 is that the committee have at least 3 members. However the board has determined that, in accordance with ASX Listing Rule 12.8, only non-executive directors should serve on the committee and consequently since 1 September 2011 the committee has consisted of the two non-executive directors.

The Company's Code of Conduct, which has been in place since 2005, contains a principle of equal opportunity to be applied in all human resource decisions and in the workplace environment. To date, the committee has determined that the board should not supplement the Code of Conduct principle by adopting an additional formal diversity policy with measurable objectives for achieving gender diversity, as recommended by ASX Principle 3.2. The workforce at Acrux is small and the majority of positions require specialist qualifications and experience. Since 2009, there has been a significant gradual reduction in employee numbers following the completion of the development of Axiron. The committee believes that these factors make a formal diversity policy and specific diversity objectives impractical at this time. As at the date of this report, the workforce numbered 17 people, 11 (65%) of whom were female. This includes the 2 current senior executives, who are male. In addition, the 3 current board members are male. The committee and the board will review the potential need for a formal diversity policy in future as the business changes.

1.7 Audit and Risk Committee

The members of the audit and risk committee of the board were:

- from 1 July 2011 to 31 August 2011 – Ken Windle (Chair), Ross Dobinson and Barrie Finnin;
- from 1 September 2011 to 30 April 2012 – Ken Windle (Chair) and Ross Dobinson; and
- from 1 May 2012 – Bruce Parncutt (Chair) and Ross Barrow.

The audit and risk committee met twice during the year ended 30 June 2012, with all members attending. Members are chosen having regard to their skills and experience in relation to the matters for which the committee is responsible. Members of the committee have unrestricted access to company records, management, advisers and the external auditors.

The committee's role, as set out in its charter, in general terms is to:

(a) oversee the Company's system of financial reporting for the purpose of safeguarding its integrity, including viewing all regular financial reports and other formal announcements relating to the Company's financial performance prepared for release to the ASX, regulators and the public before making appropriate recommendations to the board;

(b) determine the extent of internal audit activities required and monitor the effectiveness of those activities (note that the committee has determined that the Company, due to its size, does not presently warrant establishing a separate internal audit function);

(c) monitor the performance and activities of the external auditor including:

- overseeing the process for the appointment, re-appointment and removal of the external auditors (including audit engagement letters), overseeing the rotation of the principal audit partner and reviewing the level of the external auditors' fees;
- assessing the performance and independence of the external auditors and the quality of the audit work performed;
- requiring, reviewing and monitoring compliance with the audit plan of the external auditors, including the scope of the plan and the levels of financial statement materiality;
- reviewing reports from the external auditors and meeting with the external auditors at least once annually in the absence of management and also meeting with the external auditors as requested by the board, the committee or the external auditors; and
- receiving, reviewing, developing and implementing policy on the engaging of the external auditors to supply non-audit services.

(d) oversee and review the Company's financial and risk management compliance and internal control framework including:

- overseeing the creation, implementation and maintenance of the risk management system of the Company and its controlled entities and their internal control framework, including information systems;
- reviewing the effectiveness of the Company's implementation of its risk management systems and internal controls on an on-going basis and reviewing the outcome of any non-financial audits;
- requiring management to report to the board at least annually on whether the Company's material business risks are being managed effectively;
- developing an understanding of the overall business environment, relevant laws and codes of importance to the Company and the programmes that the Company has in place to provide reasonable assurance of compliance;
- reviewing the Company's occupational health and safety policies and ensuring regular reporting to the committee on issues related to occupational health and safety;
- reviewing insurance coverage and claims trends;
- ensuring that the chief executive officer and the chief financial officer state in writing to the board annually that:

(i) the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with the relevant accounting standards;

(ii) the statement in (i) above is founded on a sound system of risk management and control which implements the policies adopted by the board; and

(iii) the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The board has received the report from management, referred to above, on whether the Company's material business risks are being managed effectively. The board received the statement in writing from the executive director and the chief financial officer, referred to above, on 23 August 2011.

In accordance with the recommendations of ASX Principle 4.2, the committee's charter provides that the committee have at least three members, executive directors may not be members of the committee, a majority of the committee must be independent directors and the chair must not be the chair of the Company. These requirements, apart from the requirement to have at least 3 members, were met at all times during and since the end of the financial year. From 1 September 2011, the audit and risk committee consisted of the two independent non-executive directors. ASX Listing Rule 12.7 requires that the Company complies with ASX Principle 4.2, including the requirement for at least three members. Accordingly, the board intends to appoint another suitably experienced and qualified non-executive director, who will serve on the audit and risk committee.

1.8 Director and Senior Management Remuneration and Performance

The remuneration structure for senior management and directors and the amounts paid to each during the year are set out in the remuneration report section of the directors' report on page 27-32.

Non-executive directors are remunerated by way of fees only and do not participate in executive remuneration schemes, nor receive options, bonus payments or retirement benefits (other than statutory superannuation).

At the end of each financial year, the performance of senior executives against personal goals is assessed and personal goals and development plans for the next financial year are set, aligned with the Company's objectives. The review of senior management team members is carried out by the executive director and the results are subject to further review and approval by the human capital committee. The review of the executive director is carried out by the human capital committee and approved by the board. A performance evaluation in accordance with this process was undertaken in respect of the year ended 30 June 2012. The scope of the review of the chief executive officer (the executive director) was an assessment of goal achievement and bonus entitlement only, since at the time of the review he had given notice to depart on 30 June 2012.

A formal review of the performance of the board and its committees was not undertaken during the year ended 30 June 2012.

2. Disclosure and Communication

2.1 Continuous Disclosure

The board has approved a written continuous disclosure policy to ensure compliance with the ASX Listing Rules continuous disclosure requirements. This policy:

(a) gives guidance as to the information that may need to be disclosed;

(b) gives guidance for dealing with market analysts and the media;

(c) establishes regular reminders to directors and senior management to actively consider whether there is any price sensitive information which needs disclosure;

(d) allocates responsibility for approving public disclosures and shareholder communications.

2.2 Communications with Shareholders

The board has approved, as part of the continuous disclosure policy, the Company's policy to promote effective communication with its shareholders. In addition to its disclosure obligations under the ASX Listing Rules, the Company communicates with its shareholders through a number of means including:

(a) annual and half-yearly reports;

(b) regular shareholder updates sent by email or mail;

(c) media releases, public announcements and investor briefings; and

(d) annual general meetings.

All the above are posted on the Company's website (www.acrux.com.au). Shareholders are encouraged to receive shareholder materials electronically.

In addition the Company is committed to using general meetings of the Company to effectively communicate with shareholders and to allow reasonable opportunity for informed shareholder participation at general meetings. Where possible the Company will comply with the ASX best practice guidelines for the content of notices of meeting. Further, the external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit of the Company and the preparation and content of the auditor's report. The Company is committed to further developing its communications strategies to optimise shareholder communication.

3. Share Trading

Under the Company's share trading policy all employees and directors of the Company and its related companies are prohibited from trading in the Company's shares if they are in possession of inside information. In addition, the directors and senior executives are prohibited from trading in the Company's shares during the period from the end of the financial year to the release of financial results to the market.

The directors, the company secretary and persons reporting directly to an executive director (and their associated persons) may not trade in shares in the Company without the approval of the company secretary (or the chair in the case of the company secretary) and only if they have first given a statement that they are not in possession of material non-public information. Such approval expires after five business days.

4. Conduct and Ethics

The directors and management of the Company and its controlled entities are committed to observing high standards of ethics and behaviour in all of the Company's activities, including the Company's interaction with its shareholders, employees, business partners, customers, suppliers, the community and the environment in which the Company operates.

The Company has adopted a code of conduct which provides the ethical and legal framework for how the Company will conduct its business and how the Company will relate to shareholders, employees, business partners, customers, suppliers, the community and the environment in which the Company operates. Issues covered by the code of conduct are:

- values
- compliance with laws
- fair dealing
- confidentiality and protection of Company assets
- conflicts of interest
- shareholders and the financial community
- trading in Company securities
- equal opportunity
- health, safety and environment
- reporting non-compliance and grievances
- compliance with taxation laws
- bribes and financial inducements
- political donations

In addition the Company has adopted a whistleblower policy. The purpose of this policy is to encourage the reporting of conduct by employees of the Company and other persons with whom the Company deals closely where the interests of others, including the public, or of the Company itself are at risk. The conduct covered by the policy is conduct that is:

(a) illegal, dishonest, fraudulent or corrupt;

(b) in breach of Commonwealth or state legislation or local authority by-laws;

(c) in breach of applicable industry practices, such as Good Laboratory Practice, Good Clinical Practice or Good Manufacturing Practice;

(d) unethical (being either a breach of the Company's code of conduct or generally);

(e) gross mismanagement;

(f) a serious or substantial waste of resources;

(g) an unsafe work practice;

(h) failure to comply with the Company's code of conduct;

(i) failure to comply with agreements with the Company's commercial partners;

(j) a breach of proper environmental practice;

(k) other serious improper conduct; and

(l) any other conduct that may cause financial or non-financial loss to the Company or otherwise be detrimental to the interests of the Company.

The directors present their report together with the financial report of the consolidated entity consisting of Acrux Limited and the entities it controlled for the financial year ended 30 June 2012 and the independent audit report thereon. This financial report has been prepared in accordance with Australian Accounting Standards.

Principal Activities

The principal activities of the consolidated entity during the financial year were the development and commercialisation of healthcare products. There has been no significant change in the nature of these activities during the financial year.

Operating Results

The consolidated profit, after income tax and non-controlling equity interest, attributable to the members of Acrux Limited was $7.4 million (2011: $57.1 million). Diluted earnings per share were 4.4 cents (2011: 34.5 cents).

Review of Operations

A review of the operations of the consolidated entity during the financial year and the results of those operations are as follows:

Vision

Acrux is an innovative Australian drug delivery business developing and commercialising a range of patient-preferred, patented products for global markets, using unique technology to administer drugs.

Business Strategy

Acrux's strategy is to create new human and veterinary pharmaceutical products by combining proven drugs with innovative, patented delivery technologies. Using proven drugs means that the development time is usually shorter and the risk and expenditure lower than is typical for new drug development.

Acrux's development skills are used to progress a range of products through clinical and regulatory milestones, before commercialising them in global markets through selected commercial partners, who provide expertise in the particular market. The value of each product is shared with the partner.

Fundamental features of the design of all Acrux's products are that they are better than the existing products on the market ("patient-preferred") and cannot be copied by competitors ("patent-protected").

Operating Results

Acrux recorded consolidated profit after tax of $7.4 million (2011: $57.1 million). The prior year included milestone revenue of US$87 million from Eli Lilly, which was due following the approval of Axiron® for marketing in the United States.

Revenue

Total revenue for the financial year was $10.7 million (2011: $93.5 million). Revenue from product agreements totaled $8.8 million (2011: $89.6 million). The prior year included US$87 million in milestone revenue from Eli Lilly. Interest income reduced to $1.6 million from $3.7 million in the comparative period, as cash reserves were reduced by the payment of $100 million in a special dividend to shareholders in April 2011. Foreign currency gains added $0.2 million to revenue, compared with foreign currency losses of $1.8 million in the prior year.

Operating Expenditure

Reported operating expenditure was $5.8 million (2011: $11.0 million). Royalty payments to Monash Investment Trust reduced to $0.3 million (2011: $3.0 million), as the prior year included royalty due on the US$87 million milestone revenue from Eli Lilly. A foreign currency gain of $0.2 million was recorded for 2012 financial year, compared to a foreign currency loss of $1.8 million for the prior year, the result of appreciation of the Australian dollar versus the US dollar prior to settlement of the milestone revenue.

The reported operating expenditure for the prior year of $11.0 million was reduced by the capitalisation of product development expenses. No development expenses were capitalised for the financial year to 30 June 2012. Total expenditure, including the amounts capitalised, for external research and development expenses reduced to $0.9 million (2011: $1.7 million) and for employee benefits expense reduced to $2.6 million (2011: $3.6 million). The reduction in total employee benefits expense was the result of a reduction in the number of staff.

Income tax benefit of $2.5 million was recorded for the financial year compared to an income tax expense of $25.4 million for the prior year. Tax expense of $1.6 million was offset by tax benefit of $4.1 million due to tax losses from excess imputation credits on dividends received by the parent entity as well as amendments to prior year tax returns to include additional deductions due under the research and development tax concession.

Cash Flow

Net cash outflow for the reported period was $3.1 million (2011: $26.7 million). Cash reserves at the end of the period were $30.0 million (30 June 2011: $33.2 million).

Receipts from product agreements were $6.4 million (2011: $86.0 million). The prior year included the receipt of the Axiron milestone revenue from Eli Lilly. Interest receipts added $1.4 million (2011: $3.9 million), on reduced cash reserves following payment of the special dividend. Payments to suppliers and employees reduced to $5.6 million (2011: $9.6 million). Income taxes of $4.6 million were paid during the year (2011: $15.3 million).

The purchase of plant and equipment produced a small outflow for investing activities of $0.1 million (2011: $0.7 million). The prior year outflow of $0.7 million included payments for capitalised development expenses, offset by the sale of plant and equipment to Eli Lilly.

The clearing of previously unclaimed payments for the special dividend resulted in an outflow for financing activities of $0.6 million (2011: $91.1 million). The prior year included dividend payments of $99.0 million, offset by an inflow of $8.0 million from the exercise of employee share options. No options were exercised during 2012 financial year.

Contributed Equity

There were no changes to equity during the reporting period. The exercise of employee share options added $8.0 million to contributed equity in the prior year. The number of employee share options on issue at the end of the reporting period was 25,000 (2011: 25,000).

Important Advances During the Year

- Axiron's share of transdermal testosterone therapy prescriptions in the United States grew to 12% in its first year of sales.
- Marketing authorisation for Axiron was received by Eli Lilly in Canada and Australia.
- Acrux's first animal health product Recuvyra® was approved for marketing in the United States and Europe.
- A new patent protecting the Axiron applicator device was granted by the US Patent and Trademark Office.
- Acrux joined the S&P/ASX 200 index.
- Acrux's board of directors was refreshed with new skills for the next phase of growth.

Significant Changes in the State of Affairs

There have been no significant changes in the state of affairs of the consolidated entity during the year.

After Balance Date Events

No matters or circumstances have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Likely Developments

The Company will continue to pursue its operating strategy to create shareholder value. For the forseeable future, the consolidated entity's financial results will be materially influenced by the sales performance of Axiron in the United States. Under a license agreement with Eli Lilly, the consolidated entity receives royalties on worldwide sales of Axiron by Eli Lilly and is eligible to receive potential sales milestone payments of up to US$195 million.

Environmental Regulation

The consolidated entity's operations are subject to certain environmental regulations under a law of the Commonwealth and of a State or Territory. Details of the consolidated entity's performance in relation to such environmental regulation are as follows:

Laboratory Waste

In order to ensure compliance with the Environment Protection Act 1970 the consolidated entity engages an external waste management consultant. This consultant has ISO 14001:2004 Certified Environmental Management to ensure compliance with the legislative requirements. The consultant issues an EPA Transport Certificate at every collection of waste to ensure safe collection, transport, delivery and disposal/recycling procedures.

Trade Water Waste

An agreement exists with City West Water to ensure compliance under the Water Industry Act 1994 and Water Industry Regulations 1995. This agreement ensures that the acceptance of trade waste into the sewage network is managed effectively and that City West Water is aware of the type and quantities of waste disposed of by the consolidated entity.

The directors are not aware of any breaches during the period covered by this report.

Dividend Paid, Recommended and Declared

No dividends were paid during the year. On 23 August 2012, the directors resolved to declare a final dividend to shareholders of 8 cents per share, unfranked. The total amount of the dividend, based on the number of shares on issue at 30 June 2012 and at the date of this report is $13.3 million.

Shares Under Option

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

Date options granted	Number of unissued ordinary shares under option	Issue price of shares	Expiry date of the options
4 March 2008	25,000	$1.84	March 2013

No option holder has any right under the options to participate in any other share issue of the Company.

Shares Issued On Exercise of Options

No Ordinary shares of Acrux Limited were issued during or since the end of the financial year as a result of the exercise of an option.

There are no amounts unpaid on shares issued as a consequence of the exercise of options.

Indemnification and Insurance of Directors and Officers

During the financial year, the consolidated entity has paid premiums in respect of an insurance contract to indemnify officers against liabilities that may arise from their position as officers of the Company and its controlled entities. Officers indemnified include the company secretary, all directors and all executive officers participating in the management of the Company and its controlled entities. Further disclosure required under section 300(9) of the *Corporations Act 2001* is prohibited under the terms of the insurance contract.

Proceedings on Behalf of the Consolidated Entity

No person has applied for leave of a court to bring proceedings on behalf of the consolidated entity.

Information on Directors and Company Secretary

The qualifications, experience and special responsibilities of each person who has been a director or company secretary of Acrux Limited at any time during or since the end of the financial year are provided on pages 10-11, except for Professor Barrie (retired 31 August 2011), Ken Windle (retired 30 April 2012) and Dr Richard Treagus (resigned 29 June 2012) whose details are provided below.

The directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

H K Windle (Director from May 2001 to April 2012)

Responsibilities
Non Executive Deputy Chairman, Chair of the Human Capital Committee and Chair of the Audit and Risk Committee

Qualifications
B Pharm, MPS

Experience
Ken was a Director from May 2001 to April 2012. He held a series of global commercialisation and senior management positions in Glaxo and Glaxo Wellcome (now GSK), including Group Executive Committee, Head of Global Commercialisation, CEO of Glaxo Australia (1986-95) and Regional President, Asia Pacific (1995-2001). Ken is currently Chairman and CEO of Advent Pharmaceuticals Pty Ltd, a director of Aus Bio Limited, a member of the Innovation Australia Board, Governor of the Woolcock Institute and Monash University's Faculty of Pharmacy and a director of New Zealand Pharmaceuticals Ltd.

Previously, Ken was a consultant to the Prime Minister's Science Council on Industry Development, Pharmaceuticals Industry Strategy Group, a director of the Singapore Economic Development Board (EDB). He served two terms as Chairman of the APMA (Medicines Australia) and has twice been a winner of the Governor of Victoria Export Prize.

Information on Directors and Company Secretary (continued)

B C Finnin (Director from May 1999 to August 2011)

Responsibilities
Non Executive director, member of the Human Capital Committee and member of the Audit and Risk Committee

Qualifications
B Pharm, PhD, PhC

Experience
Barrie was a Director from May 1999 to 31 August 2011. A co-inventor of Acrux's technology, he is currently an adjunct Professor in the Faculty of Pharmacy and Pharmaceutical Sciences, Monash University, Australia. Barrie has more than 15 years' experience in the management of commercially funded research in an academic setting. He has conducted projects at various phases of drug development and manufacture for major pharmaceutical companies, and has experience in the design and commissioning of GMP manufacturing. He also has experience as an external evaluator of new drug applications for the Australian Therapeutic Goods Administration (TGA).

R Treagus (Director from April 2007 to June 2012)

Responsibilities
Chief Executive Officer and Managing Director

Qualifications
BScMed, MBChB, MPharmMed, MBA

Experience
Richard was Chief Executive Officer from May 2006 to 30 June 2012 and was Managing Director from April 2007 to 29 June 2012. He is a medical doctor, with 20 years experience in the international pharmaceutical industry, including Roche and Wyeth. He was a senior executive at Aspen Pharmacare (JSE: APN, South Africa) before moving to Australia in 2002. As General Manager at Sigma (ASX: SIP), Richard created a number of growth opportunities for the business and concluded a range of acquisitions and licensing deals. In 2010 he was awarded the Ernst and Young Entrepreneur-of-the-Year (Southern Region) in the Listed Company Category.

Directors' Meetings

The number of meetings of the board of directors and of each board committee held during the financial year and the numbers of meetings attended by each director were as follows:

			Committee Meetings			
	Directors' Meetings		Audit & Risk		Human Capital	
Directors	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
R Dobinson	9	9	2	2	1	1
B Parncutt[1]	2	2	-	-	-	-
R Barrow[2]	3	3	-	-	-	-
H K Windle[3]	7	7	2	2	1	1
B C Finnin[4]	2	2	1	1	1	1
R Treagus[5]	9	9	-	-	-	-

[1] *Appointed Non-Executive Director 30 April 2012.*

[2] *Appointed Non-Executive Director 1 April 2012.*

[3] *Resigned as Non-Executive Director 30 April 2012.*

[4] *Resigned as Non-Executive Director 31 August 2011.*

[5] *Resigned as Managing Director 29 June 2012.*

Directors' and Executives' Interests in Shares and Options

Directors' and Executives' relevant interests in shares of Acrux Limited and options over shares in the Company as at 30 June 2012 are detailed below:

	Total No. of Shares	Total No. of Options
Directors		
R Dobinson	1,372,593	-
B Parncutt[1]	550,637	-
R Barrow[2]	-	-
H K Windle[3]	45,127	-
B C Finnin[4]	755,433	-
R Treagus[5]	2,077,495	-
Executives		
J Pilcher	100,000	-
H Alsop[6]	-	-
C Blower	-	-
Total	**4,901,285**	-

[1] Appointed Non-Executive Director 30 April 2012.
[2] Appointed Non-Executive Director 1 April 2012.
[3] Resigned as Non-Executive Director 30 April 2012.
[4] Resigned as Non-Executive Director 31 August 2011.
[5] Resigned as Managing Director 29 June 2012.
[6] Director of Business Development until 2 March 2012.

Directors' Interests in Contracts

Directors' interests in contracts are disclosed in Note 23 to the financial statements.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* in relation to the audit for the financial year is provided with this report.

Non-Audit Services

Non-audit services are approved by resolution of the audit committee and approval is provided in writing to the board of directors. Non-audit services provided by the auditors of the consolidated entity during the year, Pitcher Partners, are detailed below. The directors are satisfied that the provision of the non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

Amounts paid or payable to an auditor for non-audit services provided during the year by the auditor to any entity that is part of the consolidated entity for:	**2012** **$**	**2011** **$**
Other assurance services	Nil	1,000

The directors present the consolidated entity's 2012 remuneration report which details the remuneration information for Acrux Limited's executive chairman, non-executive directors and other key management personnel.

Human Capital Committee

The Human Capital Committee carries out the following functions in relation to the remuneration of senior management:

(a) recommending to the board a policy and framework for senior employees' remuneration which should aim to set remuneration which:

  (i) is competitive, fair and designed to attract employees of high quality, experience and integrity;

  (ii) motivates senior employees to pursue the long term growth and success of the Company within the appropriate control framework; and

  (iii) establishes a clear relationship between the performance of senior management and their remuneration;

(b) reviewing and recommending to the board the total individual remuneration package of each member of senior management (including an executive director), including any bonuses, incentive payments, and participation (including the level of participation) in any share or share option plans in accordance with the policy and framework for senior employees' remuneration;

(c) reviewing benchmarks against which salary reviews are made;

(d) reviewing and recommending the establishment and terms of any employee share or share option plan or other incentive plan and recommending any changes to the board;

(e) reviewing and recommending on the superannuation arrangements of the Company and its controlled entities; and

(f) ensuring that equity-based senior management remuneration is made in accordance with thresholds set in plans approved by shareholders.

Remuneration Policy

The main principles of the Company's remuneration policy are:

- remuneration is set at levels intended to attract and retain good performers and to motivate and reward them to continually advance the business of the Company;
- remuneration is structured to reward employees both for superior performance and for increasing long term shareholder value; and
- rewards are linked to the achievement of business objectives as set by the board.

Remuneration Structure

The remuneration of employees is structured in two parts:

- ***Fixed Remuneration***, which comprises salary, superannuation and other benefits in lieu of salary; and
- ***Variable Remuneration***, which may comprise a short term incentive in the form of cash and a long term incentive in the form of options under the employee share option plan (ESOP). All permanent staff are eligible to participate in the short term incentive plan and the ESOP. However the level of participation varies according to the level of seniority and the ability to influence the performance of the business.

The Company aims to set the level of fixed remuneration at market levels for comparable jobs in the industry in which the Company operates, based on market sources. The Company then aims to set the short and long term incentives to provide for top performers to be remunerated at the upper end of the market, subject to the overall performance of the Company measured against the goals set by the board.

The aim of both the short term and long term incentive plans is to drive performance to successfully implement annual business plans and to increase shareholder value.

Short Term Incentive Plan

The purpose of the short term incentive plan is to reward achievement of business objectives on a year by year basis. Each financial year the board, in conjunction with senior management, sets the business objectives aimed to be achieved during the year to implement the Company's business plan.

The business objectives are clearly defined outcomes in product development and commercialisation, achievement of which can be readily and objectively measured at the end of the financial year. Measurement of achievement of the business objectives does not involve comparison with factors external to the Company.

Achievement of each objective is expected to create immediate value for shareholders, or secure a material step towards value that will crystallise in a future period. Achievement of the business objectives has significantly increased shareholder wealth over the 5 years ending 30 June 2012. Shareholder returns in the form of tax-free share price increase and dividends are shown in the table below. Total return over the 5 years was $3.32 tax-free, compared with a share price at 30 June 2007 of $1.53. Comparison of the achievement of objectives and shareholder returns for an individual year is not meaningful, because the value may crystallise in a future year. The Company's earnings in each of the 5 years ended 30 June 2012 are not relevant to the impact of performance on shareholder wealth, because the Company has invested in product development over several years before becoming profitable and earning regular revenue.

Financial year	Closing share price $	Share price increase $	Dividend ($ per share)
2006/07	1.53	-	-
2007/08	1.22	(0.31)	-
2008/09	1.13	(0.09)	-
2009/10	1.81	0.68	-
2010/11	3.39	1.58	0.60
2011/12	4.25	0.86	-
Total		**2.72**	**0.60**

There are different levels of short term incentive plan, with senior executives, other than executive directors, able to achieve annual incentives up to 24% of fixed remuneration.

The key principles of the plan are:

- Payments under the short term incentive plan are at the discretion of the board.
- The amount of at risk remuneration payable under the short term incentive plan is dependent upon the overall level of achievement of the year's business objectives.
- The level of achievement of the business objectives is assessed by the board at the end of each year.
- For staff other than senior executives, achievement of personal objectives set for the financial year may also form part of their assessment for short term incentive plan payments.

Long Term Incentive Plan

The purpose of the long term incentive plan is to align the interests of the senior executives more closely with those of the shareholders towards long term sustained superior performance.

The key principles of the existing Employee Share Option Plan are:

- At the discretion of the board, options to acquire shares in the Company may be granted to employees;
- The options may not be exercised for two years after grant and expire five years after grant;
- On termination of employment, options lapse other than in certain exceptional circumstances;
- The exercise price is at the discretion of the board, but has typically been set at a 15% premium to the market price of the Company's shares on the grant date; and
- The number of options outstanding and exercised in the previous five years must not exceed 10% of the Company's issued share capital.

The board evaluates the effectiveness of existing and potential long term incentive plans as the business environment changes.

Remuneration and Termination Entitlements of Executive Directors and Senior Management

The Chief Executive Officer and Managing Director, Dr Richard Treagus, was employed until 30 June 2012 under an employment contract which could be terminated by either party by giving three months' notice in writing. If the Company terminated the contract, Dr Treagus was entitled to a termination payment on expiry of the notice period equal to three months' fixed remuneration. Dr Treagus' remuneration comprised fixed remuneration, an annual short term incentive of up to 60% of his fixed remuneration and equity-based remuneration in the form of options. The level of short term incentive payable was dependent on the achievement of objectives, set by the board. The board had absolute discretion over the level of bonus payable.

The director and management services of the Executive Chairman Ross Dobinson are provided by Espasia Pty Ltd. The contract for services can be terminated by either party by giving three months notice in writing. The contract provides for fees of $118,000 per annum in respect of director services, $160,000 per annum in respect of executive services and an additional payment of up to 60% of the executive services, dependent on the achievement of objectives, set by the board. The board has absolute discretion over the amount of the additional payment.

Other senior executives have no fixed term of employment and either party may terminate the employment contract on periods of written notice of three months. The employment contracts contain no other entitlement to termination benefits in addition to statutory entitlements.

Names and positions held by executives of the consolidated entity in office at any time during the financial year are:

Executives	Position
J Pilcher	Chief Financial Officer and Company Secretary
C Blower	Chief Technical Officer
H Alsop[1]	Director of Business Development

[1] Director of Business Development until 2 March 2012.

Share Options

(a) Compensation Options: Granted and vested during the year

No options over unissued ordinary shares were granted by Acrux Limited, or vested, during or since the financial year to Directors and Executives as part of their remuneration.

(b) Shares issued on exercise of compensation options

No ordinary shares were issued to Directors and Executives on exercise of compensation options during or since the end of the financial year.

For the purposes of disclosure of Executives' remuneration in the table below, options granted to Executives have been valued as required by AASB 2. A value on grant date has been estimated using a binomial valuation model, which requires assumptions to be made regarding the market price of Acrux Limited shares on the grant date and the expected volatility of the share price. The resulting value has been evenly recognised over the vesting period of the options, as required by the Standard.

Share Options (continued)

Details of the remuneration of the Executives are set out in the following table:

		Primary	Post employ -ment	Term -ination Benefits	Equity	Total	Equity as % of Total	Bonus as % of Total
2012	**Salary $**	**Bonus* $**	**Super $**	**$**	**Options $**	**$**	**%**	**%**
J Pilcher	216,172	15,564	15,775	-	-	247,511	0%	6%
C Blower	167,704	12,074	15,775	-	-	195,553	0%	6%
H Alsop[1]	128,695	-	10,516	-	-	139,211	0%	0%
	512,571	**27,638**	**42,066**	-	-	**582,275**	**0%**	**5%**
2011								
J Pilcher	207,851	32,425	15,199	-	6,659	262,134	3%	12%
C Blower	161,246	25,154	14,512	-	-	200,912	0%	13%
H Alsop[1]	183,496	28,625	15,199	-	-	227,320	0%	13%
A Watkinson[2]	160,259	-	17,666	-	-	177,925	0%	0%
N Webster[3]	95,997	-	8,494	44,733	2,239	151,463	1%	0%
T Soulis[4]	153,104	-	12,478	49,529	-	215,110	0%	0%
	961,953	**86,204**	**83,548**	**94,262**	**8,898**	**1,234,864**	**1%**	**7%**

** Bonus relates to achievement of objectives for the financial year. The amount of bonus earned was 30% of the maximum amount payable for the 2011/12 financial year and 65% for the 2010/11 financial year.*

[1] Director of Business Development until 2 March 2012.

[2] Chief Scientific Officer until 20 May 2011.

[3] Director of Business Development (part-time) until 20 May 2011.

[4] Director of Clinical Development until 20 May 2011

Remuneration of Non-Executive Directors

The Human Capital Committee considers the level of remuneration necessary to attract and retain directors with the skills and experience required by the Company at its stage of development. The Committee then recommends to the board whether or not the directors' fees should be put to the shareholders for change.

The present directors' fees are $65,400 per annum, including superannuation for each non-executive director other than a non-executive chair who receives $118,000. At the 2004 Annual General Meeting shareholders set the maximum aggregate amount of non-executive directors' fees at $450,000. In addition non-executive directors are entitled to re-imbursement of reasonable expenses incurred by them.

No retirement allowances are paid to non-executive directors. No equity based remuneration is paid to non-executive directors. Non-Executive Directors do not receive any additional remuneration for being members of board committees.

For the purposes of disclosure of Directors' remuneration in the table below, options granted to Directors have been valued as required by AASB 2. A value on grant date has been estimated using a binomial valuation model, which requires assumptions to be made regarding the market price of Acrux Limited shares on the grant date and the expected volatility of the share price. The resulting value has been evenly recognised over the vesting period of the options, as required by the Standard.

The remuneration of each person who held the position of director at any time during the financial year is set out in the following table:

	Primary		Post employ -ment	Term -ination Benefits	Equity	TOTAL	Equity as % of Total	Bonus as % of Total
2012	**Fees $**	**Bonus* $**	**Super $**	**$**	**Options $**	**$**	**%**	**%**
R Dobinson	117,996	-	-	-	-	117,996	0%	0%
B Parncutt[1]	10,900	-	-	-	-	10,900	0%	0%
R Barrow[2]	15,000	-	1,350	-	-	16,350	0%	0%
H K Windle[3]	12,833	-	41,667	-	-	54,500	0%	0%
B C Finnin[4]	10,000	-	900	-	-	10,900	0%	0%
R Treagus[5]	396,136	72,130	25,000	-	-	493,266	0%	15%
	562,865	**72,130**	**68,917**	-	-	**703,912**	**0%**	**10%**
2011								
R Dobinson	117,996	-	-	-	-	117,996	0%	0%
H K Windle[3]	15,400	-	50,000	-	-	65,400	0%	0%
B C Finnin[4]	60,000	-	5,400	-	-	65,400	0%	0%
R Treagus[5]	358,916	150,272	25,000	-	-	534,188	0%	28%
	552,312	**150,272**	**80,400**	-	-	**782,984**	**0%**	**19%**

** Bonus relates to achievement of objectives for the financial year. The amount of bonus earned was 30% of the maximum amount payable for the 2011/12 financial year and 65% for the 2010/11 financial year.*

[1] Appointed Non-Executive Director 30 April 2012.

[2] Appointed Non-Executive Director 1 April 2012.

[3] Resigned as Non-Executive Director 30 April 2012.

[4] Resigned as Non-Executive Director 31 August 2011.

[5] Resigned as Managing Director 29 June 2012.

REMUNERATION REPORT

Number of options held by key management personnel

No options were held by key management personnel at the date of the Director's Report.

Value of options held by key management personnel

No options were held by key management personnel at the date of the Director's Report.

Number of shares held by key management personnel

Directors and Executives	Balance 1/07/2011	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30/06/2012
Directors					
R Dobinson	1,492,593	-	-	(120,000)	1,372,593
B Parncutt[1]	-	-	-	550,637	550,637
R Barrow[2]	-	-	-	-	-
H K Windle[3]	678,000	-	-	(632,873)	45,127
B C Finnin[4]	3,228,148	-	-	(2,472,715)	755,433
R Treagus[5]	2,077,495	-	-	-	2,077,495
Executives					
J Pilcher	116,980	-	-	(16,980)	100,000
C Blower	80,000	-	-	(80,000)	-
H Alsop[6]	-	-	-	-	-
Total	**7,673,216**	-	-	**(2,771,931)**	**4,901,285**

[1] *Appointed Non-Executive Director 30 April 2012.*
[2] *Appointed Non-Executive Director 1 April 2012.*
[3] *Resigned as Non-Executive Director 30 April 2012.*
[4] *Resigned as Non-Executive Director 31 August 2011.*
[5] *Resigned as Managing Director 29 June 2012.*
[6] *Director of Business Development until 2 March 2012.*

Rounding of Amounts

The amounts contained in the report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors.

B Parncutt
Director

Melbourne

Dated this 23rd day of August 2012

R Barrow
Director

Melbourne

Dated this 23rd day of August 2012

PITCHER PARTNERS
An independent Victorian Partnership
ABN 27 975 255 196

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Acrux Limited

In relation to the independent audit for the year ended 30 June 2012, to the best of my knowledge and belief there have been:

(i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*.

(ii) No contraventions of any applicable code of professional conduct.

S D WHITCHURCH
Partner
Dated this 23rd day of August 2012

PITCHER PARTNERS
Melbourne

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Consolidated Statement of Comprehensive Income

	Notes	2012 $'000	2011 $'000
Revenue	4	10,465	93,471
Foreign exchange gain		240	-
		10,705	93,471
Employee benefits expense	5	(2,630)	(2,997)
External research and development expenses	5	(905)	(1,025)
Non-executive directors' fees		(211)	(249)
Professional fees		(341)	(601)
Royalty expense		(261)	(3,008)
Occupancy expenses		(376)	(351)
Depreciation and amortisation expenses	5	(349)	(246)
Payroll taxes		(107)	(146)
Insurances		(74)	(77)
Foreign exchange losses		-	(1,750)
Loss on sale of fixed assets		-	(156)
Other expenses		(535)	(353)
		(5,789)	(10,959)
Profit before income tax		**4,916**	**82,512**
Income tax benefit/(expense)	6	2,475	(25,364)
Profit for the year		**7,391**	**57,148**
Total comprehensive income for the year		**7,391**	**57,148**
Total comprehensive income attributable to:			
Members of the parent	16	7,391	57,148
Non-controlling interest	17	-	-
		7,391	57,148
Basic earnings per share (cents per share)	8	4.44	34.73
Diluted earnings per share (cents per share)	8	4.44	34.51

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

	Notes	2012 $'000	2011 $'000
Current assets			
Cash and cash equivalents	9	30,017	33,159
Receivables	10	3,863	943
Total current assets		**33,880**	**34,102**
Non-current assets			
Plant and equipment	11	110	126
Intangible assets	12	24,509	24,767
Total non-current assets		**24,619**	**24,893**
Total assets		**58,499**	**58,995**
Current liabilities			
Current tax payable	6	560	5,669
Payables	13	996	1,777
Short term provisions	14	322	290
Total current liabilities		**1,878**	**7,736**
Non-current liabilities			
Deferred tax liabilities	6	3,504	5,495
Long term provisions	14	14	52
Total non-current liabilities		**3,518**	**5,547**
Total liabilities		**5,396**	**13,283**
Net assets		**53,103**	**45,712**
Equity			
Contributed equity	15	95,825	95,825
Reserves	16(a)	4	4
Retained earnings	16(b)	(42,726)	(50,117)
Equity attributable to the owners of Acrux Limited		53,103	45,712
Non-controlling interests	17	-	-
Total equity		**53,103**	**45,712**

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

	Notes	Contributed Equity $'000	Reserves $'000	Retained Earnings $'000	Total Equity $'000
Balance as at 1 July 2010		85,786	2,061	(7,378)	80,469
Profit for the period		-	-	57,148	57,148
Total comprehensive income for the year		-	-	57,148	57,148
Transactions with owners in their capacity as owners:					
Contributions	15(b)	10,039	(2,074)	-	7,965
Employee Share Options Expense	16(a)	-	17	-	17
Lapsed Employee Share Options	16	-	-	-	-
Dividends Paid	7	-	-	(99,887)	(99,887)
Total transactions with owners in their capacity as owners		10,039	(2,057)	(99,887)	(91,905)
Balance as at 30 June 2011		**95,825**	**4**	**(50,117)**	**45,712**
Balance as at 1 July 2011		95,825	4	(50,117)	45,712
Profit for the period		-	-	7,391	7,391
Total comprehensive income for the year		-	-	7,391	7,391
Transactions with owners in their capacity as owners:					
Contributions	15(b)	-	-	-	-
Employee Share Options Expense	16(a)	-	-	-	-
Lapsed Employee Share Options	16	-	-	-	-
Dividends Paid	7	-	-	-	-
Total transactions with owners in their capacity as owners		-	-	-	-
Balance as at 30 June 2012		**95,825**	**4**	**(42,726)**	**53,103**

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

		Consolidated Entity	
	Notes	2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts from product agreements		6,375	85,947
Payments to suppliers and employees		(5,610)	(9,649)
Interest received		1,407	3,933
Grant income received		21	168
Taxes paid		(4,625)	(15,295)
Net cash flows (used in)/provided by operating activities	18(a)	**(2,432)**	**65,104**
Cash flows from investing activities			
Proceeds from the sale of plant and equipment		-	2,583
Purchase of plant and equipment		(83)	(742)
Payment for capitalised development costs		-	(2,565)
Net cash flows used in investing activities		**(83)**	**(724)**
Cash flows from financing activities			
Net proceeds from issues of ordinary shares		-	7,964
Dividends paid		(629)	(99,047)
Net cash flows used in financing activities		**(629)**	**(91,083)**
Net decrease in cash held		**(3,144)**	**(26,703)**
Foreign exchange differences on cash holdings		2	1,253
Add cash at the beginning of the year		33,159	58,609
Cash at end of year	18(b)	**30,017**	**33,159**

The accompanying notes form part of these financial statements.

Note 1: Statement of Significant Accounting Policies

The following is a summary of significant accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) *Basis of presentation of the financial report*

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers Acrux Limited and controlled entities as a consolidated entity. Acrux Limited is a company limited by shares, incorporated and domiciled in Australia. Acrux Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial report was authorised for issue by the directors as at the date of the directors' report.

Compliance with IFRS

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

Historical Cost Convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

Critical accounting estimates

The preparation of the financial report requires the use of certain estimates and judgements in applying the entity's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 2.

(b) *Principles of consolidation*

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities, which Acrux Limited has the power to control the financial and operating policies so as to obtain benefits from its activities.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is established and are de-consolidated from the date that control ceases.

Non-controlling interests in the results of the subsidiaries are shown separately in the consolidated statement of comprehensive income and consolidated statement of financial position respectively.

(c) *Revenue recognition*

Interest revenue is recognised when it becomes receivable on a proportional basis taking into account the interest rate applicable to the financial assets.

Revenue from rendering of services to customers is recognised in the quarter in which the service was performed for the customer.

Revenue from product agreements is made up of milestone payments and revenue relating to product sales. Revenue from milestone payments is recognised upon completion of the milestone, which is the trigger point for the right to receive the revenue. Revenue relating to product sales, such as royalties and distribution fees, is recognised in the period in which the sales occur.

Government grants are recognised at fair value where there is a reasonable assurance that the grant will be received and all grant conditions will be met. Revenue from the receipt of contracted grants is recognised in the period the monies associated with the grants are expensed.

Other revenue is recognised as received or over the time period to which it relates.

All revenue is stated net of the amount of goods and services tax (GST).

(d) *Cash and cash equivalents*

Cash and cash equivalents include cash on hand and at banks, short term deposits with an original maturity of three months or less, held at call with financial institutions.

(e) *Plant and equipment*

Cost

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation and any accumulated impairment losses.

Depreciation

The depreciable amount of all fixed assets are calculated on a straight line basis over their estimated useful lives to the entity commencing from the time the asset is held ready for use.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Note 1: Statement of Significant Accounting Policies (continued)

The useful lives for each class of assets are:

	2012	2011
Leasehold improvements:	Not Applicable	Not Applicable
Plant and equipment:	2.5 to 14 years	2.5 to 14 years

(f) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases
Lease payments for operating leases are recognised as an expense on a straight-line basis over the term of the lease.

(g) Intangibles

The intangible assets are recognised at cost at the date of acquisition. The balances are reviewed annually and any balances representing probable future benefits that are no longer anticipated are written off.

Intellectual Property
Acquired intellectual property is initially recorded at cost. Intellectual property with a finite life is carried at cost less any accumulated amortisation and any impairment losses. The intellectual property is amortised over the useful life of the relevant patents. The useful life is approximately 13 years. Amortisation expense is included in 'Depreciation and amortisation expenses' of the Statement of Comprehensive Income.

Research and Development
Expenditure during the research phase of a project is recognised as an expense when incurred. Product development costs are capitalised only when each of the following specific criteria has been satisfied:

1. Technical feasibility of completing development of the product and obtaining approval by regulatory authorities.
2. Ability to secure a commercial partner for the product.
3. Availability of adequate technical, financial and other resources to complete development of the product, obtain regulatory approval and secure a commercial partner.
4. Reliable measurement of expenditure attributable to the product during its development.
5. High probability of the product entering a major pharmaceutical market.

Capitalised development costs have a finite life and are amortised on a systematic basis over the period from first commercial sale of the product and cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with AASB 5 and the date that the asset is derecognised.

The useful life of each asset and the total economic benefits that will be generated by the asset over its useful life are estimated and the asset cost is divided by the total economic benefits resulting in an amount of cost to be amortised per dollar of economic benefit. The estimated useful life and total economic benefit for each asset are reviewed at least annually. The useful life of one asset for which amortisation has commenced is approximately 15 years. Amortisation expense is included in 'Depreciation and amortisation expenses' of the Statement of Comprehensive Income.

(h) Impairment

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicate that the carrying amount of the asset may be impaired.

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

(i) Income tax

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. No deferred tax asset or liability is recognised in relation to temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

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

Note 1: Statement of Significant Accounting Policies (continued)

(j) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Contributions are made by the consolidated entity to employee superannuation funds and are charged as expenses when the obligation to pay them arises.

Bonus
The consolidated entity recognises a provision when a bonus is payable in accordance with the employee's contract of employment, and the amount can be reliably measured.

Share-based payments
The consolidated entity operates an employee share option plan. The bonus element over the exercise price for the grant of options is recognised as an expense in the Statement of Comprehensive Income in the period(s) during which the employee becomes entitled to exercise the options.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date. The fair value of options at grant date is determined using a binomial option pricing model, and is recognised as an employee expense over the period during which the employees become entitled to the option.

Termination benefits
Termination benefits are payable when employment of an employee is terminated before the normal retirement date.

The consolidated entity recognises a provision for termination benefits when entitlement to contractual benefits arises or when the entity can no longer withdraw the offer of non-contractual benefits.

(k) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

(l) Financial instruments

Non Derivative Financial Instruments

Financial Assets
Trade receivables are carried at full amounts due less any provision for impairment. A provision for impairment is recognised when collection of the full amount is no longer probable. Amounts receivable from other debtors are carried at full amounts due. Other debtors are normally settled 30 days from month end unless there is a specific contract, which specifies an alternative date. Amounts receivable from related parties are carried at full amounts due.

Non-listed investments in controlled entities, for which fair value cannot be reliably measured, are carried at cost and tested for impairment.

Financial Liabilities
Financial liabilities include trade payables, other creditors and inter-company balances.

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Trade liabilities are normally settled 30 days from month end.

Derivative Financial Instruments
The consolidated entity holds derivative financial instruments to hedge its risk exposures from foreign currency exchange rate movements.

Hedge accounting
Certain derivatives are designated as hedging instruments and are further classified as either fair value hedges or cash flow hedges.

At the inception of each hedging transaction, the consolidated entity documents the relationship between the hedging instruments and hedged items, its risk management objective and its strategy for undertaking the hedge transaction. The consolidated entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge
Material changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Note 1: Statement of Significant Accounting Policies (continued)

(ii) Cash flow hedge

To qualify as a cash flow hedge the underlying transactions generating the cash flows must be highly probable. Material changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in equity in the cash flow hedging reserve. This gain or loss is released to profit or loss in the same period when the forecast transactions occur, thereby mitigating any exchange fluctuations that would have transpired in the absence of the hedge.

(m) Foreign currency translations and balances

Functional and presentation currency

The financial statements of each of the consolidated entity's subsidiaries are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is the consolidated entity's functional and presentation currency.

Transactions and balances

Transactions in foreign currencies of entities within the consolidated group are translated into functional currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

Except for certain currency hedges, all resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year.

(n) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the balance sheet are shown inclusive of GST.

(o) Rounding amounts

The parent entity and the consolidated entity have applied the relief available under ASIC Class Order CO 98/0100 and accordingly, amounts in the consolidated financial statements and directors' report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(p) New accounting standards and interpretations

A number of standards and interpretations have been issued at the reporting date but are not yet effective. The directors' assessment of the impact of these standards and interpretations is set out below.

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

AASB 9 Financial Instruments improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

AASB 9 could change the classification and measurement of financial assets and liabilities. The consolidated entity has yet to determine the impact, if any, of the new provisions on any amounts recognised in the financial statements.

The consolidated entity does not expect to adopt the new standard before its operative date. It would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

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

AASB 13 introduces a fair value framework for all fair value measurements in the full suite of accounting standards. This standard explains how to measure fair value and aims to enhance fair value disclosures. The consolidated entity has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements.

The consolidated entity does not expect to adopt the new standard before its operative date. It would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

Other standards and interpretations, including AASB 10 Consolidated Financial Statements and AASB 11 Joint Arrangements, have been issued at the reporting date but are not yet effective. When adopted, these standards and interpretations are not expected to impact on the financial information presented.

Note 2: Critical Accounting Estimates and Judgements

Certain accounting estimates and assumptions concerning the future, which, by definition, will seldom represent actual results. Estimates and assumptions based on future events have a significant inherent risk, and where future events are not as anticipated there could be a material impact on the carrying value of assets and liabilities, discussed below:

(a) *Income tax*

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the group will derive sufficient future assessable income to enable the benefit to be realised and that it will comply with the conditions of deductibility imposed by the law.

Deferred tax assets are recognised for deductable temporary differences as management considers that it is probable that future tax profits will be available to utilise those temporary differences.

(b) *Impairment Testing*

The Company uses discounted cash flow models to determine that the parent entity's investments in and loans to its subsidiaries, and the capitalised development costs in the consolidated entity, are not being carried at a value that is materially in excess of recoverable value. The models value each product or potential product by estimating future cashflows and discounting the future net cash flows for the probability of successful commercialisation, as well as for the time value of money using a discount rate of 11%. Revenue from a product is estimated using current market data and projections of market growth and potential market share.

(c) *Employee Benefits*

Calculation of long term employment benefits requires estimation of the retention of staff, future remuneration levels and timing of the settlement of the benefits. These estimates are based on historical trends.

(d) *Share based payments*

The group operates an employee share option plan. The bonus element over the exercise price for the grant of options is recognised as an expense in the Statement of Comprehensive Income in the period(s) when the benefit is earned. The value of the bonus element is calculated using a binomial option pricing model. This model requires the input of a number of variables including an estimate of future volatility and a risk free interest rate. Volatility is estimated based on the historical movements in the Company's share price since listing on the Australian Stock Exchange. The risk free interest rate is the Reserve Bank of Australia's cash rate at the options grant date. The value from the pricing model is discounted to reflect the probability of staff remaining employed during the vesting period of the options, based on the historical staff turnover rate.

Note 3: Financial Instruments and Financial Risks

The consolidated entity is exposed to a variety of financial risks comprising:

(a) Interest rate risk
(b) Currency risk
(c) Credit risk
(d) Liquidity risk

The board of directors has overall responsibility for identifying and managing operational and financial risks.

(a) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities at 30 June 2012 are shown in the table on the following page. Cash is the only financial asset or liability that is exposed to interest rate risk. A change in the average effective interest rate during the reporting period of 1% would have changed the net profit and equity of the consolidated entity by approximately $0.2 million. A change in the average effective interest rate of 1% applied to the cash balances at 30 June 2012 of $30.0 million would change the net profit and equity of the consolidated entity by approximately $0.2 million.

At 30 June 2012, the consolidated entity had financial instruments with carrying amounts as shown in the following table:

	Floating interest rate		Fixed interest rate maturing in 1 year or less		Non-interest bearing		Total carrying amount as per the Balance Sheet		Weighted average effective interest rate	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**	**2012 $'000**	**2011 $'000**	**2012 $'000**	**2011 $'000**	**2012 %**	**2011 %**
(i) Financial assets										
Cash	2,983	8,946	27,033	24,212	1	1	30,017	33,159	5.5	5.3
Receivables	-	-	-	-	3,863	943	3,863	943		
Total financial assets	**2,983**	**8,946**	**27,033**	**24,212**	**3,864**	**944**	**33,880**	**34,102**		
(ii) Financial liabilities										
Trade creditors	-	-	-	-	193	218	193	218		
Sundry creditors and accruals	-	-	-	-	803	1,559	803	1,559		
Total financial liabilities	-	-	-	-	**996**	**1,777**	**996**	**1,777**		

The net fair value of the financial assets and financial liabilities at 30 June 2012 was not materially different to the carrying amounts as disclosed in the balance sheet and notes to the financial statements.

Note 3: Financial Instruments and Financial Risks (continued)

(b) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The consolidated entity is exposed to material currency risks due to revenue denominated in US dollars. Currency risk management strategies are regularly reviewed.

Bank accounts denominated in US dollars are maintained in order to facilitate receipts and payments. Cash reserves at 30 June 2012 included $0.3 million (2011: $2.3 million) denominated in US dollars. A change of 10% in the AUD/USD exchange rate at 30 June 2012 would have immaterial impact on the net profit and equity of the consolidated entity.

During the reporting period, exchange rate risk was managed by eliminating US dollar revenue in excess of US dollar expenditure through spot and short-term forward sales of US dollars. Forward exchange contracts are entered into in order to sell specified amounts of US dollars in the future at stipulated exchange rates. The objective in entering the forward exchange contracts is to protect against unfavourable exchange rate movements for both the contracted and anticipated transactions undertaken in foreign currencies.

The accounting policy for forward exchange contracts is detailed in Note 1(l).

At balance date, the details of outstanding forward exchange contracts are:

Buy Australian Dollars	Sell United States Dollars		Average Exchange	
	2012 $'000	2011 $'000	2012 $	2011 $
Less than 6 months	1,800	-	0.9755	-

During the reporting period, the consolidated entity received revenues of $6.1 million denominated in US dollars. Payments of royalties from Eli Lilly under the Axiron licence agreement comprised the majority of the revenue denominated in US dollars. A change of 10% in the average AUD/USD rate achieved on conversion of these payments to Australian dollars would have changed the consolidated net profit and equity by approximately $0.6 million.

In future periods, material amounts of revenue are expected to be received in US dollars as royalties and potential sales milestone payments under the Axiron agreement are payable in US dollars.

(c) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The maximum exposure to credit risk of recognised financial assets at balance date, excluding the value of any collateral or other security, is the carrying amount of those assets, net of any provisions for impairment of those assets, as disclosed in consolidated statement of financial position and notes to the consolidated financial statements.

Cash reserves form the majority of the consolidated entity's financial assets at 30 June 2012. Acrux Limited is a Pooled Development Fund. The Pooled Development Fund Act restricts the investment of cash reserves to deposits with an Australian bank licensed to take deposits. This policy is also followed for all cash held by the other companies within the consolidated entity. At 30 June 2012, cash was deposited with three different banks in order to spread risk and ensure interest rate competitiveness.

At 30 June 2012, the consolidated entity did not have a material credit risk exposure to any single customer or group of customers. During future reporting periods, the consolidated entity is expected to have a material credit exposure to Eli Lilly and Company and its subsidiaries, due to the royalties and milestone payments expected under a licence agreement for the commercialisation of Axiron. At 30 June 2012, Eli Lilly's credit ratings were AA-(S&P) and A2 (Moodys). The credit rating and financial health of Eli Lilly are monitored regularly. The grant of the license under the license agreement is subject to payment by Eli Lilly of the amounts in accordance with the agreement.

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The financial liabilities of the consolidated entity at the balance date are all expected to mature within three months of the balance date. The consolidated entity has sufficient cash reserves, $30.0 million (2011: $33.2 million) to settle these liabilities and to fund operating expenditure for the foreseeable future. The consolidated entity does not have an overdraft or loan facility. The maturity profile of the consolidated entity's cash term deposits is actively managed and compared with forecast liabilities to ensure that sufficient cash is available to settle liabilities as they fall due.

Note 4: Revenue

	2012 $'000	2011 $'000
Revenues from operating activities		
Revenue from product agreements	8,797	89,603
Grant revenue	21	168
Total revenues from operating activities	8,818	89,771
Other revenues		
Interest	1,647	3,700
Total revenues from non-operating activities	1,647	3,700
Total revenues from continuing operations	**10,465**	**93,471**

Note 5: Profit from continuing operations

	Notes	2012 $'000	2011 $'000
Profit from continuing operations before income tax has been determined after the following specific expenses:			
Employee benefits expense			
Wages and salaries		2,417	3,278
Workers' compensation costs		8	12
Superannuation costs		182	233
Training expenses		23	23
Share-based payments		-	17
Total employee benefits expense		**2,630**	**3,563**
Capitalised	12	-	(566)
Per Statement of Comprehensive Income		**2,630**	**2,997**
Depreciation of non-current assets			
Plant and equipment		91	140
Total depreciation of non-current assets		**91**	**140**
Amortisation of non-current assets			
Intellectual property		95	95
Research and development		163	11
Total amortisation of non-current assets		**258**	**106**
Total depreciation and amortisation expenses		**349**	**246**
Rental expense on operating leases		262	251
External research and development expenses		905	1,725
Capitalised	12	-	(700)
Per Statement of Comprehensive Income		**905**	**1,025**

Note 6: Income tax

	2012 $'000	2011 $'000
(a) Components of tax expense		
Current tax	1,596	24,716
Deferred tax	68	655
Over provision in prior years	(4,139)	(7)
	(2,475)	**25,364**
(b) Reconciliation of income tax expense		
The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:		
Profit before tax from continuing operations	4,916	82,512
Prima facie income tax payable on profit before income tax at 15.0% for parent entity and 30.0% for subsidiaries (2010: 25.0% for parent entity and 30.0% for subsidiaries)	1,503	24,749
Add/(subtract) tax effect:		
Non-deductible expenses	95	22
Research and development tax concession	(77)	-
Foreign tax credits written off	(5)	259
(Over)/under provisions for prior years	(1,623)	288
Previously unrecognised tax losses	-	-
Previously unrecognised temporary differences	(2,372)	-
Tax losses and temporary differences not brought to account	4	46
	(3,978)	615
Income tax (benefit)/expense attributable to profit	**(2,475)**	**25,364**
(c) Current tax		
Opening balance	5,669	-
(Over)/under provision in prior years	(1,623)	1,295
Provision for current year	1,596	24,716
Tax losses transferred from deferred tax	(463)	(5,053)
Tax payments	(4,619)	(15,289)
Current tax liability	**560**	**5,669**

Note 6: Income tax (Continued)

(d) Deferred tax balances	Opening balance	Over-provision prior years	Transferred to current tax	Recognised in profit or loss	Closing balance
2012	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Temporary differences					
Intangible assets	(6,948)	-	-	49	(6,899)
Accruals and provisions	179	(12)	-	(47)	120
Leasehold improvements	228	-	-	(12)	216
Patent expenses	606	-	-	87	693
Exchange differences	55	-	-	(54)	1
Accrued interest	(43)	1	-	(71)	(113)
Share issue expenses	33	(11)	-	(20)	2
	(5,890)	(22)	-	(68)	(5,980)
Unused tax losses and credits					
Tax losses	395	2,399	(463)	145	2,476
	(5,495)	**2,377**	**(463)**	**77**	**(3,504)**

	Opening balance	Over-provision prior years	Transferred to current tax	Recognised in profit or loss	Closing balance
2011	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Temporary differences					
Intangible assets	(6,545)	-	-	(403)	(6,948)
Accruals and provisions	295	-	-	(116)	179
Leasehold improvements	239	-	-	(11)	228
Patent expenses	658	(170)	-	118	606
Exchange differences	77	-	-	(22)	55
Accrued interest	(113)	-	-	70	(43)
Share issue expenses	34	32	-	(33)	33
	(5,355)	(138)	-	(397)	(5,890)
Unused tax losses and credits					
Tax losses	4,008	1,441	(5,054)	-	395
Foreign tax credits	253	-	-	(253)	-
	4,261	1,441	(5,054)	(253)	395
	(1,094)	**1,303**	**(5,054)**	**(650)**	**(5,495)**

Note 6: Income tax (Continued)

	2012 $'000	2011 $'000
(e) Deferred tax assets not brought to account		
Temporary differences	(322)	(316)
Tax losses	6,405	6,949
	6,083	**6,633**

The parent entity, Acrux Limited is a Pooled Development Fund (PDF):

- PDF's are taxed at 15% on income and gains from investments in small to medium enterprises;
- PDF's are taxed at 25% on other income
- Groups containing a PDF are not permitted to consolidate for tax purposes.

Note 7: Dividends

	2012 $'000	2011 $'000
(a) Dividends paid		
No dividends paid (2011: 60 cents per share unfranked)	-	99,887
Balance of franking account on a tax paid basis at financial year-end, adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and any credits that may be prevented from distribution in subsequent years.	19,909	15,289

The directors have recommended a final dividend to shareholders for 2012 of 8 cents per share, unfranked. The total amount of the dividend, based on the number of shares on issue at 30 June 2012 and at the date of this report is $13.3 million.

Note 8: Earnings Per Share

	2012 $'000	2011 $'000
Profit from continuing operations	7,391	57,148
Profit used in calculating basic and diluted earnings per share	7,391	57,148
	No. of shares	**No. of shares**
Weighted average number of ordinary shares used in calculating basic earnings per share	166,496,711	164,535,257
Effect of dilutive securities –		
Employee Share Options	12,120	1,077,493
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	166,508,831	165,612,750
Basic earnings per share (cents)	4.44	34.73
Diluted earnings per share (cents)	4.44	34.51

Note 9: Cash and cash equivalents

	2012 $'000	2011 $'000
Cash at bank	2,984	8,947
Deposits at call	27,033	24,212
	30,017	**33,159**

Note 10: Receivables

Current		
Trade receivables	2,293	703
Other receivables	1,425	177
Prepayments	145	63
	3,863	**943**

(a) Provision for impairment

Trade receivables are non interest bearing with 30 or 60 day terms. An impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. No impairment losses have been recognised for reported periods. All trade receivables are expected to be received within trading terms.

Note 11: Plant and equipment

	Notes	2012 $'000	2011 $'000
Leasehold Improvements			
At cost		1,115	1,115
Accumulated amortisation		(1,115)	(1,115)
Total leasehold improvements	11(a)	-	-
Plant and Equipment			
At cost		439	469
Accumulated depreciation		(329)	(343)
Total plant and equipment	11(a)	110	126
Total plant and equipment		**110**	**126**

(a) Reconciliations

Reconciliations of the carrying amounts of plant and equipment at the beginning and end of the current financial year:

Leasehold improvements		
Carrying amount at beginning	-	-
Additions	-	-
Amortisation expense	-	-
	-	-
Plant and equipment		
Carrying amount at beginning	126	1,024
Additions	75	28
Disposals	-	(786)
Depreciation expense	(91)	(140)
	110	**126**

Note 12: Intangible assets

	Notes	2012 $'000	2011 $'000
Intellectual Property			
At cost		1,200	1,200
Accumulated amortisation		(759)	(664)
	12(a)	441	536
Capitalised Development			
Ellavie			
External research and development expenses		766	766
Employee benefits capitalised		169	169
Other capitalised amounts		136	136
	12(a)	1,071	1,071
Axiron			
External research and development expenses		17,415	17,415
Employee benefits capitalised		3,353	3,353
Other capitalised amounts		2,403	2,403
Accumulated amortisation		(174)	(11)
	12(a)	22,997	23,160
Net carrying amount		24,068	24,231
Total intangible assets		**24,509**	**24,767**

(a) Reconciliations

Reconciliations of the carrying amounts of intellectual property and capitalised development at the beginning and end of the current financial year.

Intellectual Property		
Carrying amount at beginning	536	631
Amortisation expense	(95)	(95)
	441	536
Capitalised Development		
Ellavie		
Carrying amount at beginning	1,071	962
Additions	-	109
	1,071	1,071
Axiron		
Carrying amount at beginning	23,160	21,815
Additions	-	1,356
Amortisation	(163)	(11)
	22,997	23,160

The remaining useful life of Axiron Capitalised Development is approximately 15 years.

Note 13: Payables

	2012 $'000	2011 $'000
Current		
Trade creditors	193	218
Sundry creditors and accruals	803	1,559
	996	**1,777**

Note 14: Provisions

	2012 $'000	2011 $'000
Current		
Employee entitlements	322	290
Non-current		
Employee entitlements	14	52
Aggregate employee entitlements liability	**336**	**342**

Note 15: Contributed equity

	2012		2011	
	No. of Shares	**$'000**	**No. of Shares**	**$'000**
(a) Issued and paid up capital				
Ordinary shares fully paid	166,496,711	95,825	166,496,711	95,825
(b) Movements in shares on issue				
Beginning of the financial year	166,496,711	95,825	160,556,216	85,786
Issued during the year – Employee share option plans	-	-	5,940,495	7,982
Less Capital Raising Expenses	-	-	-	(17)
Fair value of shares issued on exercise of employee share options	-	-	-	2,074
Contributions from share issues	-	-	5,940,495	10,039
At reporting date	**166,496,711**	**95,825**	**166,496,711**	**95,825**

(c) Share Options

Employee Share Option Plan
At 30 June 2012 25,000 vested options remained unexercised. These options are exercisable at $1.84 and expire 3 March 2013. Options hold no participation rights, but shares issued on exercise of options rank equally with existing shares. No options were held by key management personal.

During the financial year, no options (2011: Nil) were granted under the plan.

The closing market value of an ordinary Acrux Limited share on the Australian Stock Exchange at 30 June 2012 was $4.20.

	2012 No.	**2011 No.**
(i) Movement in the number of share options held under Employee Share Option Plan and CEO contract are as follows:		
Opening balance	25,000	5,965,495
Granted during the year	-	-
Exercised during the year	-	(5,940,495)
Lapsed during the year	-	-
Closing balance	25,000	25,000

	$'000	**$'000**
(ii) Details of share options exercised during the year:		
Proceeds from shares issued	-	7,982
Fair value as at issue date of shares issued during the year	-	16,553

(iii) Details of lapsed options

No options lapsed during the reporting period.

(d) Capital Management
When managing capital, the directors' objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders.

No dividends were paid during the financial year. The directors have recommended a final dividend to shareholders of 8 cents per share, unfranked. The amounts and ratio of future dividends have not been determined.

Note 16: Reserves and retained earnings

	Notes	2012 $'000	2011 $'000
Share based payment reserve	**16(a)**	**4**	**4**
Retained earnings	**16(b)**	**(42,726)**	**(50,117)**

(a) Share based payment reserve

(i) Nature and purpose of reserve

This reserve is used to record the value of equity benefit provided to employees and directors as part of their remuneration. Refer note 15 for details.

(ii) Movement in reserve

	2012 $'000	2011 $'000
Balance at the beginning of year	4	2,061
Transfer fair value of employee shares options to share capital	-	(2,074)
Employee share option expense for the period (including adjustment for service conditions not met)	-	17
Vested employee share options previously expensed, that lapsed during the period	-	-
Balance at end of year	4	4

(b) Retained earnings

	2012 $'000	2011 $'000
Balance at the beginning of year	(50,117)	(7,378)
Vested employee share options that lapsed during the period	-	-
Net profit attributable to members of Acrux Limited	7,391	57,148
Accumulated profit/(losses) at reporting date	(42,726)	49,770
Dividends paid	-	(99,887)
Accumulated losses at reporting date	(42,726)	(50,117)

Note 17: Non-controlling interests

	Notes	2012 $'000	2011 $'000
Non-controlling interests comprises:			
Contributed equity	17(a)	51	51
Retained earnings	17(b)	(51)	(51)
		-	-
(a) Non-controlling interests in issued and paid-up capital of controlled entities			
- Cosmeceutic Solutions Pty Ltd - Fully paid ordinary shares		51	51
(b) Retained earnings			
Opening balance		(51)	(51)
- Share of operating loss attributed to the non-controlling interests		-	-
Closing balance		(51)	(51)

Note 18: Cash flow information

		2012 $'000	2011 $'000
(a)	**Reconciliation of the cash flow from operations with profit after income tax:**		
	Profit from ordinary activities after income tax	7,391	57,148
	Non-Cash Items		
	Depreciation and amortisation	349	246
	Loss on sale of fixed assets	-	156
	Unrealised foreign exchange losses	(2)	(1,253)
	Share based payments	-	17
	Changes in assets and liabilities		
	(Decrease)/increase in tax liabilities	(7,100)	10,070
	(Increase) in trade and other receivables	(2,913)	(753)
	(Decrease) in trade and other creditors	(151)	(497)
	(Decrease) in employee entitlements	(6)	(30)
		(9,823)	7,956
	Net cash (outflows)/inflows from operating activities	(2,432)	65,104
(b)	**Reconciliation of cash**		
	Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
	- Cash at bank	2,984	8,947
	- At call deposits with financial institutions	27,033	24,212
	Closing cash balance	30,017	33,159

(c) **Credit stand-by arrangement and loan facilities**

The consolidated entity has credit card facilities with the National Australia Bank and American Express available to the extent of $81,000 (2011: $91,000). As at 30 June 2012 the consolidated entity had unused facilities of $47,074 (2011: $89,287).

Note 19: Commitments

	2012 $'000	2011 $'000
Lease expenditure commitments		
Operating leases (non-cancellable)		
(i) Non cancellable operating leases contracted for but not capitalised in the accounts:		
(ii) Minimum lease payments		
- Not later than one year	272	262
- Later than one year and not later than five years	258	530
Aggregate lease expenditure contracted for at reporting date	530	792

The operating lease relates to office, laboratory and warehouse facilities for which the lease was renewed by Acrux DDS Pty Ltd for a period of 4 years from 1 June 2010, with an option to extend for a further period of 4 years. The lease contract contains market review clauses in the event that Acrux DDS Pty Ltd exercises its option to renew. The company does not have an option to purchase the leased asset at the expiry of the lease period.

Note 20: Key management personnel compensation

Details of Key Management Personnel Compensation are contained within the Remuneration Report section of the Director's Report. A breakdown of the aggregate components of Key Management Personnel's compensation is provided below:

	2012 $'000	2011 $'000
Compensation by category:		
Short-term employment benefits	1,175	1,751
Post-employment benefits	111	164
Termination benefits	-	94
Equity	-	9
Total	**1,286**	**2,018**

Note 21: Key management personnel's equity holdings

Number of shares held by Key Management Personnel

Directors and Executives	Balance 1/07/11	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30/06/12
Directors					
R Dobinson	1,492,593	-	-	(120,000)	1,372,593
B Parncutt[1]	-	-	-	550,637	550,637
R Barrow[2]	-	-	-	-	-
H K Windle[3]	678,000	-	-	(632,873)	45,127
B C Finnin[4]	3,228,148	-	-	(2,472,715)	755,433
R Treagus[5]	2,077,495	-	-	-	2,077,495
Executives					
J Pilcher	116,980	-	-	(16,980)	100,000
C Blower	80,000	-	-	(80,000)	-
H Alsop[6]	-	-	-	-	-
Total	**7,673,216**	-	-	**(2,771,931)**	**4,901,285**

Note 22: Loans to key management personnel

There were no loans made to Key Management Personnel during the reporting period.

Note 23: Related party disclosures

Wholly owned group transactions

Loans
Loans were made by Acrux Limited to its subsidiaries under normal terms and conditions. The aggregate amounts receivable from controlled entities by the parent entity at the end of the reporting period were $193,202 (2011: $344,417).

Loans were made by Acrux Commerical Pty Ltd to its subsidiary, Fempharm Pty Ltd, under normal terms and conditions. The aggregate amount receivable from Fempharm Pty Ltd at the end of the reporting period was $7,062,206 (2011: $6,753,467).

Other transactions with Key Management Personnel and their personally related entities
Any payments made to Key Management Personnel during the financial year, other than remuneration entitlements, related to the reimbursement of business expenses incurred on behalf of Acrux Limited and its subsidiaries.

Note 24: Auditor's remuneration

	2012 $'000	2011 $'000
Amounts paid and payable to Pitcher Partners for:		
(i) Audit and other assurance services		
- An audit or review of the financial report of the entity and any other entity in the consolidated entity	99	97
- Other assurance services	-	1
	99	98

Note 25: Segment information

The consolidated entity operates as a single operating segment. Internal management reporting systems present financial information as a single segment. The segment derives its revenue from developing and commercialising products using unique technology to administer drugs through the skin.

Additional information on revenue:

	2012 $'000	2011 $'000
Product/Service		
Axiron	7,415	89,572
Recuvyra	1,500	-
Other revenue	1,790	3,899
Total revenue	**10,705**	**93,471**
Country of Origin		
Australia	1,668	3,868
Other:		
Switzerland	6,401	89,449
United States	2,613	-
Overseas	23	154
	10,705	93,471

Revenue from Axiron and Recuvyra was received from a single customer.

Note 26: Parent entity details

Summarised presentation of the parent entity, Acrux Limited, financial statements.

		Parent Entity	
		2012 $'000	**2011 $'000**
(a)	**Summarised statement of financial position**		
	Assets		
	Current assets	1,824	3,307
	Non-current assets	21,689	19,524
	Total assets	**23,513**	**22,831**
	Liabilities		
	Current liabilities	359	1,443
	Non-current liabilities	-	30
	Total liabilities	**359**	**1,473**
	Net assets	**23,154**	**21,358**
	Equity		
	Share capital	95,824	95,824
	Current year earnings	1,796	-
	Retained earnings	(74,470)	(74,470)
	Share based payments reserve	4	4
	Total equity	**23,154**	**21,358**
(b)	**Summarised statement of comprehensive income**		
	Profit for the year	1,796	24,513
	Other comprehensive income for the year	-	-
	Total comprehensive income for the year	**1,796**	**24,513**

Note 27: Controlled entities

	Country of Incorporation	Percentage Owned	
		2012	2011
Parent Entity:			
Acrux Limited	Australia		
Subsidiaries of Acrux Limited			
Acrux DDS Pty Ltd	Australia	100%	100%
Acrux Pharma Pty Ltd	Australia	100%	100%
Acrux Commercial Pty Ltd	Australia	100%	100%
Cosmeceutic Solutions Pty Ltd	Australia	90%	90%
Cosmeceutic Solutions Pty Ltd was deregistered on 8 August 2012.			
Subsidiaries of Acrux Commercial Pty Ltd			
Fempharm Pty Ltd	Australia	100%	100%

Note 28: Contingencies

There were no contingencies at 30 June 2012 (2011: Nil).

Note 29: Subsequent events

There has been no other matter or circumstance, which has arisen since 30 June 2012 that has significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 30 June 2012, of the consolidated entity, or

(b) the results of those operations, or

(c) the state of affairs, in financial years subsequent to 30 June 2012, of the consolidated entity.

Note 30: Company details

The registered office of the company is:

Acrux Limited
103–113 Stanley Street
West Melbourne
Victoria, Australia 3003

DIRECTORS DECLARATION

The directors declare that the financial statements and notes set out on pages 23 to 62 in accordance with the *Corporations Act 2001*:

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

(b) As stated in Note 1(a) the consolidated financial statements also comply with International Financial Reporting Standards; and

(c) Give a true and fair view of the financial position of the consolidated entity as at 30 June 2012 and of its performance for the year ended on that date.

In the directors' opinion there are reasonable grounds to believe that Acrux Limited will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made by the chief executive officer and chief financial officer to the directors in accordance with sections 295A of the *Corporations Act 2001* for the financial year ending 30 June 2012.

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

B Parncutt
Director

Melbourne

Dated this 23rd day of August 2012

R Barrow
Director

Melbourne

Dated this 23rd day of August 2012

PITCHER PARTNERS
An independent Victorian Partnership
ABN 27 975 255 196

INDEPENDENT AUDITOR'S REPORT

To the members of Acrux Limited and Controlled Entities.

Report on the Financial Report

We have audited the accompanying financial report of Acrux Limited and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

PITCHER PARTNERS
An independent Victorian Partnership
ABN 27 975 255 196

INDEPENDENT AUDITOR'S REPORT

To the members of Acrux Limited and Controlled Entities.

Independence

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

Opinion

In our opinion:

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

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

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

(b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 27 to 32 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Acrux Limited and controlled entities for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

S D WHITCHURCH

Dated this 23rd day of August 2012

PITCHER PARTNERS

Melbourne

SHAREHOLDER INFORMATION AS AT 21 SEPTEMBER 2012

Additional information required by Australian Securities Exchange Listing Rules and not disclosed elsewhere in this report:

Shareholders

The Company has 166,496,711 ordinary fully paid shares on issue, held by 4,560 shareholders and 25,000 options outstanding, held by 1 person. The Company does not have any other shares or options or other equity securities on issue. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. No voting rights attach to the options.

All fully paid ordinary shares are quoted on the Australian Securities Exchange. No other equity securities of the Company are quoted on the Australian Securities Exchange. The Company has not had, and neither is there currently, any on-market buy back.

Distribution Schedule

The following is a distribution schedule of the number of holders of fully paid ordinary shares in the Company within the bands of holding specified by the ASX Listing Rules:

Category	Number of Share-holders	Percentage	Shares
1 to 1,000 shares	1,121	0.37%	623,398
1,001 to 5,000 shares	2,318	3.26%	5,430,036
5,001 to 10,000 shares	851	3.48%	5,793,755
10,001 to 100,000 shares	934	12.94%	21,542,351
100,001 shares and over	157	79.95%	133,107,171
Total	**5,381**	**100.00%**	**166,496,711**

145 shareholders hold less than a marketable parcel of fully paid ordinary shares (being the Company's main class of securities), based on the market price at the date set out above.

Substantial Holders (as disclosed in substantial holding notices)

Name	Number of equity securities held
Ellerston Capital Limited	10,962,098
Fidelity Investment	8,636,252

Under the ASX Listing Rules "Substantial Holder" means, in general terms, a person who either alone or with their associates has an interest in 5% or more of the voting shares of the Company.

Twenty Largest Holders of Fully Paid Ordinary Shares in Acrux Limited

	Shareholder	Number of fully paid ordinary shares	Percentage of total capital
1	National Nominees Limited	28,586,236	17.17%
2	HSBC Custody Nominees (Australia) Limited	22,542,241	13.54%
3	J P Morgan Nominees Australia Limited	22,121,477	13.29%
4	Citicorp Nominees Pty Limited	6,621,634	3.98%
5	J P Morgan Nominees Australia Limited	6,335,832	3.81%
6	BNP Paribas Noms Pty Ltd	3,888,664	2.34%
7	BNP Paribas Noms Pty Ltd	2,384,326	1.43%
8	Dilan Corp Pty Ltd	2,045,000	1.23%
9	AMP Life Limited	1,864,058	1.12%
10	Durbin Superannuation Pty Ltd	1,559,852	0.94%
11	Dorvell Pty Ltd	1,479,503	0.89%
12	UBS Wealth Management Australia Nominees Pty Ltd	1,400,862	0.84%
13	Equity Trustees Limited	1,400,000	0.84%
14	Ross Dobinson	1,372,593	0.82%
15	Asia Union Investments Pty Ltd	1,212,728	0.73%
16	Citicorp Nominees Pty Limited	1,024,834	0.62%
17	BNP Paribas Noms Pty Ltd	976,759	0.59%
18	HSBC Custody Nominees (Australia) Limited	936,436	0.56%
19	Investment Holdings Pty Ltd	845,612	0.51%
20	C M Abbott Pty Limited	800,000	0.48%
		109,398,647	**65.71%**

Market Listing

Acrux Limited is quoted on the Australian Securities Exchange (ASX). Share prices can be obtained from most Australian national newspapers and from the ASX website (www.asx.com.au). The shares of the Company are not quoted on any other stock exchange. The following are the share prices for the end of each quarter of the financial year ending 30 June 2012:

Quarter ended 30 September 2011	$3.20
Quarter ended 31 December 2011	$2.87
Quarter ended 31 March 2012	$3.98
Quarter ended 30 June 2012	$4.25

The closing share price on 21 September 2012 was $3.39.

SHAREHOLDER INFORMATION AS AT 21 SEPTEMBER 2012

Pooled Development Fund

The information set out below is of a general nature only and may vary from person to person (dependent on their circumstances). Any shareholder or prospective shareholder should obtain their own taxation advice, rather than relying on this summary.

Acrux Limited is a Pooled Development Fund (PDF) that has been registered under the *Pooled Development Fund Act 1992* ("the PDF Act") since 7 July 1999. A PDF is a company that is resident in Australia, and is registered and regulated by the PDF Registration Board in accordance with the PDF Act.

Shareholders in the Company will be entitled to concessionary tax treatment in Australia for income and capital gains derived in connection with their shareholding. The concessionary tax treatment should be available to investors that hold their interests directly and indirectly through non-corporate trusts and partnerships.

Gains realised by an investor on the disposal of shares in the Company will not be included in the investor's assessable income in Australia. This is because:

- Where the gain on sale would be ordinary income of the investor, the gain will be treated as exempt income; and
- Where the gain on sale would be a capital gain it is specifically excluded from the capital gains tax provisions of the Tax Act.

Equally, an investor will not be entitled to any deduction or capital loss on the sale of the Company's shares.

Shares held in a PDF cannot be held as trading stock. Accordingly, share traders cannot treat PDF shares as trading stock.

Unfranked dividends received by an Australian resident shareholder from the Company will be exempt from tax in the hands of the shareholder. Franked dividends will also be exempt from tax unless the shareholder elects to treat the franked dividend as taxable.

Broadly, Australian resident shareholders who hold the Company's shares at risk (in accordance with the Tax Act) for 45 days or more may elect to treat franked dividends paid by the Company as assessable income, and claim the tax offset available in respect of the dividend. The tax offset will be equal to the franking credit attaching to the dividend received. Where the tax offset available exceeds the shareholder's highest marginal tax rate, the shareholder may be entitled to receive a refund of tax in respect of the excess franking credit.

Australian corporate tax entities are entitled to benefit from the franking credits attaching to the franked portion of the dividends paid by the Company, irrespective of whether the corporate tax entity treats the dividend as exempt income or elects to treat it as assessable income. Accordingly, an Australian corporate may credit its franking account with franking credits attaching to a dividend from the Company regardless of whether or not they have elected to treat the dividend as exempt or assessable income.

Dividends paid by Acrux to non-residents will not be subject to withholding tax regardless of whether or not they are franked or unfranked.

Should the Company cease to be a PDF, each shareholder will be deemed to have sold their shares immediately before the Company ceased to be a PDF and to have acquired the shares at their market value immediately after the Company ceased to be a PDF. Any gain or loss realised on the sale after that time, calculated by reference to the deemed acquisition cost, will be subject to the general provisions of the Tax Act and any such gain may be included in the shareholder's assessable income.

Acrux Limited and subsidiary companies

103-113 Stanley Street
West Melbourne
Victoria, Australia 3003

Telephone	+ 61 3 8379 0100
Facsimile	+ 61 3 8379 0101
Web	www.acrux.com.au

Australian Stock Exchange code "ACR"

Information about the Company, including disclosures to the Australian Stock Exchange, can be found on the Company's website. If you require further information about Acrux, please contact the Chief Financial Officer & Company Secretary, Jon Pilcher, on +61 3 8379 0100, or jon.pilcher@acrux.com.au.

Share Registry

Link Market Services

Level 9
333 Collins Street
Melbourne, Vic 3000

Locked Bag A14
Sydney South, NSW 1235

Toll-free	1300 554 474 (Australia only)
Telephone	(02) 8280 7111
International	+61 2 8280 7111
Facsimile	(02) 9287 0303
Facsimile	(02) 9287 0309 (for proxy voting)
Email	registrars@linkmarketservices.com.au
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