



FIVE MAJOR ADVANCES IN PRODUCT COMMERCIALISATION ACHIEVED

Evamist[™] launched in USA by KV Pharmaceutical Peak Annual Sales potential US\$125m

Major expansion of KV partnership access to Evamist™ data secured Faster launch of Ellavie™ in ex-US markets

Commenced Phase 3 trial of Testosterone MD-Lotion® Results due Q3 2009

New commercial manufacturing alliance with Orion

Critical element of commercialisation strategy

First animal health product Phase 3 completed by Eli Lilly

More animal health products to follow

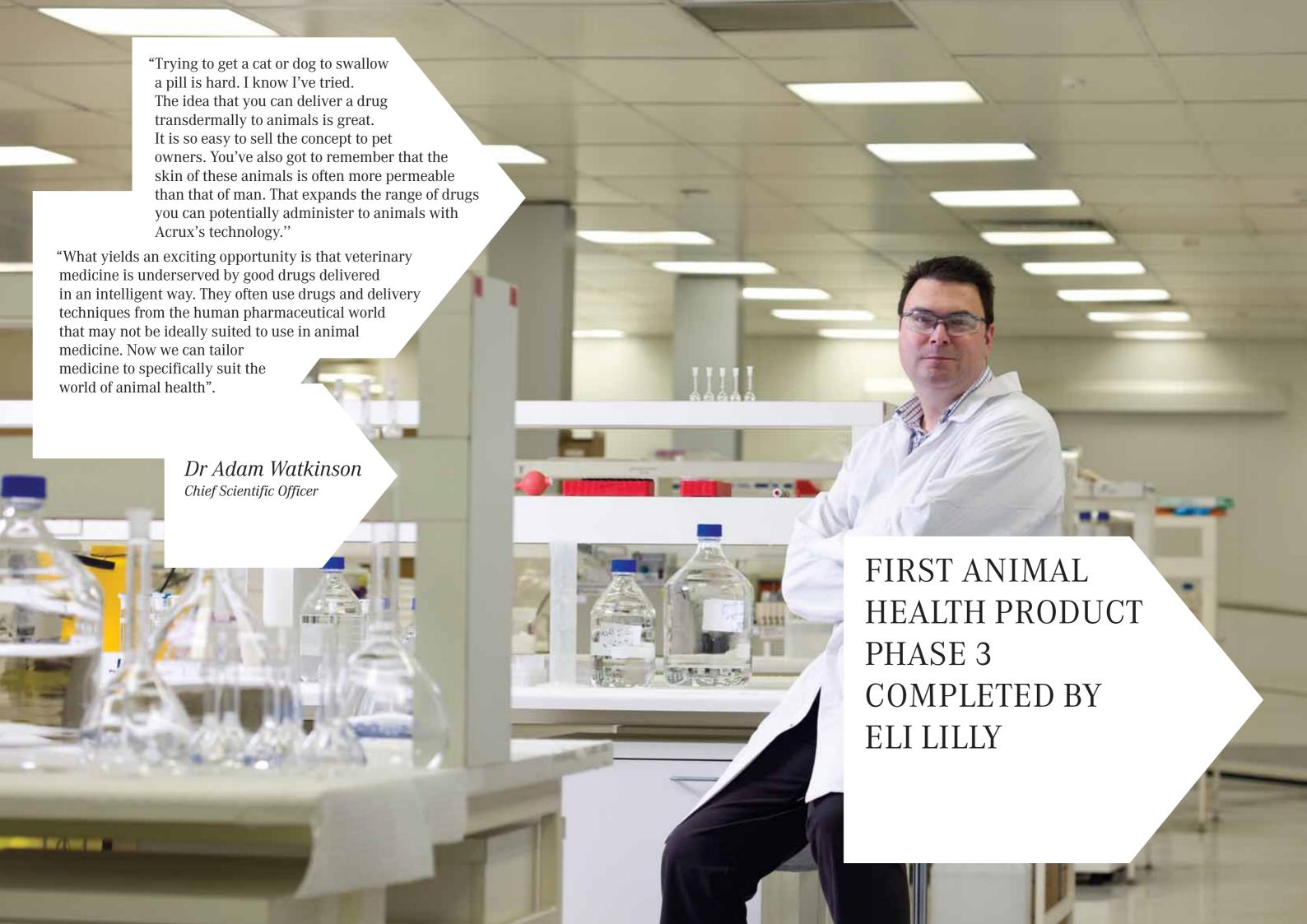
ACRUX 2008 ANNUAL REPORT











PIPELINE - PARTNERED PRODUCTS

Therapeutic Area	Formulation	Phase 1	Phase 2	Phase 3	Registration	Marketing
Menopausal symptoms	EvaMist™ (Estradio	ol MDTS®)				KV (USA) Aspen (AU/NZ)
Menopausal symptoms	Duomist™					KV (USA)
Decreased libido in women	Testosterone MDT	S [®]				VIVUS (USA) CSL (AU/NZ)
Companion animal health	Undisclosed					Eli Lilly
Companion animal health	Undisclosed					Eli Lilly

PIPELINE - UNPARTNERED PRODUCTS

Therapeutic Area	Formulation	Phase 1	Phase 2	Phase 3	Registration	Marketing
Menopausal symptoms	Ellavie™ (Estra	diol MDTS®)				Ex-USA
Menopausal symptoms	Duomist™					Ex-USA
Hypogonadism	Testosterone M	ID-Lotion®				World
Contraception	Nestorone [®] MDT	rS®				World
Chronic pain	Fentanyl MDTS					World
Smoking cessation	Nicotine MDTS					World

ACRUX HAS AN UNRIVALLED PRODUCT PIPELINE, WITH A BALANCE OF LATE STAGE AND EARLY STAGE PRODUCTS CAPABLE OF DELIVERING STRONG SHORT-TERM REVENUE AND LONG-TERM VALUE. RISK AND OPPORTUNITY FOR SHAREHOLDERS IS SPREAD ACROSS A BROAD RANGE OF PRODUCTS. WE HAVE SOLID COMMERCIAL PARTNERSHIPS IN PLACE, BUT ALSO HIGH VALUE ASSETS WHICH ARE NOT YET PARTNERED, SUCH AS TESTOSTERONE MD-LOTION®.

CHAIRMAN'S LETTER

Dear Shareholder,

Acrux has had an exceptional year, with the successful launch of Evamist™ and rapid progress with development work on several new products. The potential for veterinary applications of the Acrux technology have been overshadowed by both Evamist™ and the Phase 3 work on Testosterone MD-Lotion®, but veterinary products are likely to be a significant contributor to Acrux's income in the short term. Shareholders are familiar with the strength of the Company's pipeline, which is consistently recognised within the financial press. While recognition of the strength of the Company's cash position and pipeline have not been reflected in the share price, turnover in the Company's shares has remained low, indicating the confidence shareholders have in the Company.

Market conditions have clearly been unfavourable generally, and particularly for the biotech sector. Acrux has weathered the storm reasonably well, and management has worked with its institutional shareholder base to minimise the impact of sales by retail investors. We believe that progress with licensing discussions should lead to a stronger share price in the first half of calendar 2009 now that the foundations have been laid for more profitable partnerships. The manufacturing collaboration with Orion will be particularly valuable as it provides Acrux with a complete development and manufacturing package to offer prospective licensees.

Acrux has matured significantly in the last year, and we expect that maturation to be reflected in the Company's share price within the next six months.

Ross Dobinson

Chairman

BOARD OF DIRECTORS

1. Ross Dobinson, BBus

(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 Chairman in January 2006. He is a founder and former CEO of Acrux. Ross has a background in investment banking and stock broking. He is currently Managing Director of TSL Group Ltd, a corporate advisory company specialising in establishing and advising life sciences companies. He is also a director of Starpharma Holdings Limited (ASX: SPL), since May 1997, and a number of unlisted companies including TPI Enterprises Ltd.

2. Ken Windle, BPharm, MPS (Non Executive Deputy Chairman, Chair of the Human Capital Committee and Chair of the Audit and Risk Committee)

Ken has been a Director since 2001. He held a series of global commercialisation and senior management positions in Glaxo and Glaxo Wellcome, serving as a member of the Group Executive and Commercial & Operations Committees. From 1980 he headed Glaxo's UK subsidiary and was CEO of Glaxo Australia from 1986-95. In 1995 he was appointed Regional Director, Asia Pacific. He was also director of Sigma Company Limited (ASX: SIP) from 2000 to December 2005. Ken is currently Chairman and CEO of Advent Pharmaceuticals Pty Ltd, Chairman of Cerylid Limited and a director of Aus Bio Limited. Ken is also a member of the Innovation Australia Board and Chairman of the Pharmaceuticals Committee. He has served as a Consultant to the Prime Minister's Science Council on Industry Development and was a Director of the Singapore Economic Development Board. Ken was Chairman of the APMA (now known as Medicines Australia) and has been twice a winner of the Governor of Victoria Export Prize.

3. Professor Barrie Finnin, BPharm, PhD, PhC (Non Executive director, member of the Human Capital Committee and member of the Audit and Risk Committee) Barrie has been a Director since 1999 and is a co-inventor of Acrux's technology. He is currently Professor of Formulation Science at the Victorian College of Pharmacy, 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

4. Dr Richard Treagus, BScMed, MBChB, MPharmMed, MBA (Chief Executive Officer and Managing Director)

Administration (TGA).

Richard joined Acrux as CEO in May 2006 and was appointed to the board in April 2007. He is a medical doctor, with 15 years experience in the international pharmaceutical industry. Having commenced with Roche in a Medical Advisory capacity, Dr Treagus soon transitioned into a variety of senior commercial roles. He was responsible for the Sales, Marketing and Strategic business development at Aspen Pharmacare (JSE: APN, South Africa) and a member of the Senior Executive team that took the company through a rapid growth phase following the acquisition of South African Druggists in February 1999. More recently, as General Manager of Sales, Marketing and Business Development at Sigma (ASX: SIP), Richard played an integral role in establishing growth opportunities for the business and concluding a variety of acquisitions and licensing deals.





SENIOR MANAGEMENT TEAM

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1. Chief Executive Officer

Richard Treagus BScMed, MBChB, MPharmMed, MBA, joined Acrux as CEO in May 2006 and was appointed to the board in April 2007. He is a medical doctor, with 15 years experience in the international pharmaceutical industry. Having commenced with Roche in a Medical Advisory capacity, Dr Treagus soon transitioned into a variety of senior commercial roles. He was responsible for the Sales, Marketing and Strategic business development at Aspen Pharmacare (JSE: APN, South Africa) and a member of the Senior Executive team that took the company through a rapid growth phase following the acquisition of South African Druggists in February 1999. More recently, as General Manager of Sales, Marketing and Business Development at Sigma (ASX: SIP), Richard played an integral role in establishing growth opportunities for the business and concluding a variety of acquisitions and licensing deals.

2. Chief Financial Officer & Company Secretary

Jon Pilcher, BSc (Hons), ACA, 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.

3. Chief Scientific Officer

Adam Watkinson, PhD, MBA, joined Acrux in July 2005. He has a wealth of experience in the area of drug delivery in general, and transdermal delivery in particular. Prior to Acrux he worked at UK specialty pharma company ProStrakan as a Project Manager and Drug Delivery Research Manager. Prior to ProStrakan, Adam played key roles at An-eX, a UK company that provides R&D development services in the area of percutaneous absorption to the pharmaceutical, cosmetic and agrochemical industries. Adam has an MBA from Cardiff University, a PhD from the Welsh School of Pharmacy in the area of transdermal delivery and a BSc in Chemistry from the University of Bath. He has published extensively on his research and holds an Honorary Chair in the School of Pharmacy at the University of London.

4. Director of Regulatory Affairs & Quality

Rosalie Cull, PhD, NZCS, NZ Dip Sci, joined Acrux in October 2006. Rosalie has extensive experience in drug development with an emphasis on Regulatory Affairs and Chemistry Manufacturing and Controls (CMC). Her experience covers a wide range of therapeutic areas and dosage forms, encompassing both biologicals and small molecules. Prior to Acrux she was a Manager in Kendle Australia's Regulatory, Development & Commercialisation Division. Prior to Kendle, Rosalie worked in Regulatory Affairs and active pharmaceutical ingredient (API) sourcing for Faulding Pharmaceuticals (now Mayne Pharma), in Regulatory Affairs for CSL and in various research and development roles for Biotech Australia, and several New Zealand based companies. Rosalie holds a PhD in Biochemistry from La Trobe University, Melbourne.

5. Director of Business Development

Nina Wilkins, PhD, M.IP.Law, began working with Acrux in 2001. Nina spent six years in research and development at Wyeth in the UK, gaining experience from formulation development through to pharmaceutical scale-up and technology transfer. Nina is responsible for the strategic identification, development and maintenance of commercial partnerships. She has previously held leadership roles at Acrux in project management and R&D and continues to be responsible for the intellectual property portfolio. Nina holds a PhD in transdermal delivery from Cardiff University, a Bachelor degree in Pharmacology and a Masters of Intellectual Property Law from Melbourne University.

6. Director of Business Development

Hugh Alsop, Bsc (Hons), MBA, joined Acrux from Sigma Pharmaceuticals Pty Ltd in August 2006. Hugh was responsible for successfully expanding Sigma's export markets in Europe and Asia through the completion of a number of out-licensing, manufacturing and distribution agreements. In addition to managing Sigma's export portfolio, Hugh was also responsible for the commercial aspects of Sigma's contract manufacturing business, focusing on maximising existing relationships and seeking new growth opportunities for the business. Prior to Sigma, Hugh spent 8 years at Mayne Pharma (FH Faulding & Co) in a variety of roles focused on global strategic development of their injectible business. Hugh holds a Bachelor of Science (in Chemistry) from the University of Melbourne and an MBA from Melbourne Business School.

7. Director of Clinical Development

Tina Soulis, BSc, PhD, joined Acrux in May 2006 and was appointed Director of Clinical Development in July 2007.

Tina has over 15 years of experience in drug development, particularly in the design, management and implementation of clinical trials. Her experience encompasses all stages of drug development in many therapeutic areas and geographical regions. Prior to joining Acrux Tina held a senior clinical position with Kendle that involved the leadership of projects for numerous biotechnology and pharma clients. Prior to Kendle, Tina was a research manager responsible for a team of scientists developing new drugs for the management of diabetic disease. Tina holds a Bachelor of Science (in Biochemistry and Physiology) and a PhD in Medicine from the University of Melbourne.

8. Director of Technical Affairs & Product Development

Clive Blower, BSc (Hons), PhD, joined Acrux in October 2007 from Mayne Pharma where he held a number of senior management positions, the most recent of which was Development Manager, Injectable Development. Clive has experience in all stages of product development including Pre-Clinical, Active Pharmaceutical Ingredient (API) Sourcing, Regulatory Affairs, Intellectual Property, Manufacturing, Engineering, Quality Control, Quality Assurance and Commercial. While employed at Mayne he contributed to the development and launch of more than 25 pharmaceutical products.

OPERATING REVIEW

PERFORMANCE AGAINST OBJECTIVES SET FOR 2007/08 FINANCIAL YEAR

Estradiol MDTS* (Evamist**) – KV Pharmaceutical launches Evamist** in USA

In April 2008 we announced that Evamist[™], the first product utilising our unique skin spray drug delivery technology, had been launched by US licensee KV Pharmaceutical Company into one of the largest therapeutic categories in women's healthcare. Evamist[™] targets an annual US\$1.4 billion estrogen therapy market where physicians and patients are seeking an effective low-dose estrogen product. Evamist™ is marketed by the 330-strong women's health salesforce of KV's subsidiary Ther-Rx Corporation, leveraging its strong relationships with Obstetricians/Gynecologists, as well as select primary care physicians. Peak annual sales potential is estimated by KV to be US\$125 million, approaching the current sales of the leading transdermal estrogen patch. Acrux receives royalties on sales of Evamist[™], with the effective royalty percentage increasing as the annual sales increases. Acrux expects royalties will be modest at first, growing to at least \$15 million per annum at peak sales.

Three months after the launch, Evamist™ was ranked second in transdermal hormone therapies as measured by "New to Brand Prescriptions" (new patient starts or switches from other brands). KV expects Evamist™ to be a significant contributor to Ther-Rx net revenues during the second half of fiscal 2009 (October 2008 to March 2009).

Commercialisation – secure two significant new business deals

1. KV Pharmaceutical

In August 2008 we announced a major expansion of our commercial partnership with KV Pharmaceutical Company (NYSE: KVa/KVb), ensuring strong alignment of both parties.

Under the new agreement, Acrux gained the right to use the data contained in KV's US Food and Drug Administration (FDA) ▼ filling for Evamist™ in regulatory fillings in all territories outside the USA. This secured immediate value for Acrux, enabling us to proceed to file a marketing application in Europe, under the brand name Ellavie™. We have already received strong commercial interest for Ellavie™ from potential marketing partners in the ex-USA pharmaceutical markets. There are no access payments or royalties on Ellavie revenues payable by Acrux to KV.

In addition to the short term value, under the new agreement KV licensed Acrux's transdermal spray technology for application in six additional products, with the potential to add further products in the future. Three pre-clinical products, including a combination hormone therapy Duomist™, have been licensed for the US market only. KV will fund all clinical development costs for each product and Acrux will receive royalties on US sales

plus milestone payments. Acrux will have access to the data contained in KV's FDA filings to use in regulatory filings in all other territories. In return, Acrux will pay to KV a share of its licensing revenues from those territories.

The Acrux technology has further been licensed to KV to develop three novel products for global markets. KV will fund all clinical development costs for each of these products and Acrux will receive royalties on global sales plus milestone payments.

2. Orion Corporation

Also in August 2008 we announced a commercial manufacturing alliance with European pharmaceutical company Orion Corporation (OMX: ORNAV, ORNBV), representing a crucial element in our overall commercialisation strategy. Orion will manufacture finished products for Acrux on a commercial scale, at its FDA-approved facility in Finland. Orion has a market capitalisation of approximately EUR 1.8 billion and reported turnover of EUR 683 million and operating profit of EUR 192 million in 2007. Orion develops, manufactures and markets pharmaceuticals, active pharmaceutical ingredients and diagnostic tests for global markets.

Under the agreement, Acrux has appointed Orion as the exclusive commercial manufacturer of Testosterone MD-Lotion®, which will enable Acrux to supply product to licensees in all territories. Acrux expects to file marketing applications in the 4th quarter of 2009, with Orion as the authorised manufacturer. In addition, Orion will have the capability to manufacture transdermal spray (MDTS®) finished products exclusively for Acrux as a range of products utilising its unique drug delivery technology are commercialised globally. The alliance involves an investment by both companies in additional infrastructure at the Orion facility. The investment by Acrux forms part of the existing budget for the Testosterone MD-Lotion® Phase 3 programme.

Testosterone MD-Lotion® for men – initiate Phase 3 trial

In June 2008 we announced the commencement of the pivotal Phase 3 trial of Testosterone MD-Lotion*. The trial has been designed to support global registration of the product and we intend to submit marketing applications to regulatory authorities in the fourth quarter of 2009.

The trial will enrol up to 150 hypogonadal men at 27 sites in the USA, Europe and Australia. The men will use Testosterone MD-Lotion® for 4 months, during which blood samples will be analysed to determine the level of testosterone in the blood. At least 50 subjects will continue treatment for a further 2 months in order to demonstrate skin safety following 6 months of continuous use. The primary objective of the trial is to demonstrate that Testosterone MD-Lotion® restores average blood levels of testosterone into the normal range. Secondary objectives include the assessment of quality of life and sexual health.

The global market for testosterone replacement therapy is currently US\$0.9 billion per annum, growing strongly at 20%. Growth is expected to continue as awareness of the condition increases and more user-friendly treatments become available. The market is dominated by testosterone gels, with US sales of approximately \$570 million per annum, growing at 23%. During the year we conducted two detailed independent market research studies with current users of gels and physicians who prescribe them, both in the key US market. After trialling the Acrux product for 4 days, two thirds of patients confirmed that they would prefer it to their existing gel treatment. 87% of physicians said that they would offer Testosterone MD-Lotion® to their existing gel patients. This research tells us that Testosterone MD-Lotion® has the potential to make a real difference to men with this condition and in the process we expect it to take a significant share of this growing market.

After submitting marketing applications we will select the best marketing partners for each territory. We expect to retain approximately half of the total product value in these partnering deals, which will result in very significant revenues for Acrux.

Eli Lilly and Company partnership – initiate Phase 3 clinical trial

The start of the Phase 3 trial of the first animal health product under this partnership was announced in November 2007. More importantly, we were able to announce completion of the trial in June 2008.

The information that we can give has always been limited by commercial confidentiality obligations, but we expect this partnership to deliver significant revenue to Acrux from milestone payments and royalties, starting in 2010. Elanco, the animal health division of the global pharmaceutical group Eli Lilly and Company, has made excellent progress and is actively developing several additional products for global markets, using Acrux's unique liquid technology to deliver drugs across the skin of animals. A successful drug product for companion animals will typically secure annual sales of US\$50 million to US\$100 million.

PENDING Nestorone® contraceptive sprays – complete multiple dose clinical trials of two combination products

The completion of these trials has been delayed until the end of 2008, due to the recruitment of the required number of volunteers proving more difficult than expected. The design of these trials, in which a large number of blood samples are taken over an extended period, has required a significant time commitment from the volunteers. Both trials are now fully recruited.

Worldwide annual sales of hormonal contraceptives are approximately US\$6.7 billion, with combinations containing a progestin and an estrogen comprising more than 80% of those sales. The aim of these trials is to demonstrate that our once-daily contraceptive sprays can deliver the right amount of each component to provide an attractive new choice for women in that market.

The progestin in our formulations is Nestorone®, a fourth-generation progestin contraceptive that has no androgenic hormonal effects and a good safety profile. Its benefits have not been available in contraceptive pills because it cannot be absorbed when taken orally. In the trials we are testing combinations of Nestorone® with each of two estrogens – the natural estradiol and the synthetic ethinyl estradiol. The latter is currently contained in the majority of contraceptive pills. Our successful single dose trials of these formulations last year were the first time we had delivered a combination of two drugs in a single formulation.

New products – successful proof of concept clinical trial of one new product

In November 2007 we announced the addition of Nicotine MDTS* to our clinical product pipeline after an initial clinical trial delivered positive results. The trial tested the delivery of nicotine into the blood after a single dose of three different spray formulations containing nicotine and from a leading nicotine patch. We noted no significant skin irritation, which is a significant problem associated with the marketed patches.

Worldwide annual sales of smoking cessation therapies are approximately US\$1 billion, dominated by nicotine patches, lozenges and gums, marketed by three of the largest global pharmaceutical companies. The majority of sales are over-the-counter, driven by consumer choice and supported by extensive brand marketing. The current nicotine therapies have limitations and smokers often use them in combination. Nicotine MDTS* is designed to overcome those limitations and provide multiple benefits in a single product presentation. We expect the spray to provide the prolonged effect of patches, but with no significant skin irritation and with active and flexible dosing that provides smokers with greater influence over their treatment.

Since the completion of the trial, we have discussed the optimal design of the product with potential commercial licensees and are currently completing formulation adjustments before advancing into the next stage of development.

OPERATING REVIEW

Corganon partnership – start Phase 1 trial of one product

Following a portfolio review and re-prioritisation of research and development after its acquisition of Organon, in August 2008 Schering-Plough decided not proceed further with our two early-stage product development collaborations.

Although this decision had little impact on the business given the early stage of the project and the advances in our late stage product pipeline, it was disappointing, particularly after we delivered formulations on time. We received non-refundable payments totalling US\$1 million in 2007 on signing of the collaboration agreements and the incremental costs incurred by Acrux were immaterial.

Our ongoing development of a novel contraceptive spray continues. We will seek new partners to bring our unique Nestorone® formulations and other contraceptives to women in this US\$7 billion market.

Fentanyl MDTS – complete Phase 1 trial under US IND

This objective was achieved in January 2008. The aim of the trial was to demonstrate that Acrux's MDTS® formulation delivers fentanyl into the bloodstream of healthy volunteers in quantities known to be safe and effective in controlling chronic pain. The trial was conducted in Australia under an Investigational New Drug Application (IND) with the FDA.

Data modelling, based on the single dose trial results, was used to compare the delivery from multiple doses of MDTS® with the known delivery from currently marketed fentanyl patches. The patches are available in a number of fixed strengths and are required to be replaced every three days. The results indicated that twice-daily dosing with MDTS® would achieve a therapeutic level of fentanyl comparable to the highest strength patch. A variable dosing regimen with MDTS®, covering the entire dose range of different strength patches, could provide a more flexible approach to the control of chronic pain. No serious adverse events or significant skin irritation were recorded during the trial.

We are currently in discussions with the FDA to determine further development requirements for the Fentanyl MDTS® product.

✓ Cash reserves – maintain above \$25 million at all times

This was comfortably achieved, with \$34.4 million reserves at 30 June 2008. Prudent management of our costs and cash reserves will remain a fundamental discipline throughout the business.

OTHER IMPORTANT DEVELOPMENTS

Progress with the final stage of development of Testosterone MDTS*, our testosterone spray for the treatment of hypoactive sexual desire disorder in women, has been very slow. In 2004 we licensed the product to VIVUS for the US market and we are not satisfied with VIVUS' performance. Acrux retains full rights in all other territories and, along with many analysts, we continue to believe that this product has tremendous commercial potential in a large market that currently has no approved treatment.

In November 2007 Acrux made a demand for arbitration under its Development and Commercialisation Agreement for Testosterone MDTS® with VIVUS. The demand seeks a reversion of all rights licensed to VIVUS related to Testosterone MDTS®, monetary damages, a portion of a milestone payment under the agreement and declaratory relief. The arbitration process is proceeding, with the parties having selected and qualified a panel of three arbitrators and having agreed to a schedule of pre-hearing discovery. The arbitration hearing is currently scheduled to commence in January 2009.

In April 2008 VIVUS announced agreement with the FDA on its requirements for the Phase 3 clinical studies of Luramist™ (the US brand name for Testosterone MDTS®). VIVUS and the FDA have agreed that the pivotal phase 3 program will include two efficacy trials that will enrol menopausal women for six months of treatment. The primary endpoints are an increase in sexual desire and the number of satisfying sexual events, with a secondary endpoint of a decrease in sexual distress. In addition, VIVUS reached agreement with the FDA on the safety study, which will be a cardiovascular event-based outcomes study. Subjects will be required to have an average exposure to the product of 12 months. The study will enrol approximately 5,200 women, aged 50 years or older, who have at least one cardiovascular risk factor. All patients will remain in the study until a minimum number of cardiovascular events have occurred.

VIVUS stated that with the successful completion of the two efficacy studies along with interim results of the safety study, it expects to submit an application to the FDA seeking approval of Luramist within two years from initiation of the safety study. Subjects enrolled in the safety study will receive treatment for up to five years, allowing for longer-term assessments of cardiovascular and breast cancer risks. The long-term assessments are not required for submission or approval of the application.

FINANCE

Our net loss for the year reduced by \$2.9 million to \$5.0 million, continuing our progress towards profitability. Total revenue grew to \$7.0 million (2007: \$5.1 million), including a milestone payment of \$3.5 million from US licensee VIVUS Inc., following the approval from the FDA for marketing of Evamist™ in the USA. Interest income increased to \$2.5 million (2007: \$1.1 million), due to higher interest rates and to the inflow of new share capital of \$24.3 million. We received \$0.7 million in grant funding towards our product development activities from the Australian Commonwealth Government under the Pharmaceutical Partnerships Program.

Total expenditure, before capitalisation of development expenses relating to Testosterone MD-Lotion® and Ellavie™, increased by \$3.0 million to \$16.0 million. External research and development expenditure before capitalisation increased to \$7.2 million from \$5.9 million, with approximately half the expenditure relating to the progression of Testosterone MD-Lotion® into Phase 3 development. There was also a small planned increase in staff numbers to execute the Phase 3 programme.

Expenditure of \$0.3 million on Ellavie™ and \$3.9 million on Testosterone MD-Lotion® was capitalised during the year. This expenditure meets the criteria for capitalisation under AASB 138, "Intangible Assets". Acrux has the technical and financial capability to complete development, the expenditure can be reliably measured and the means of generating

probable future revenue has been clearly demonstrated by the FDA approval and launch of EvamistTM and the establishment of various commercial agreements for products utilising the Acrux technology platform. Capitalised expenditure will be amortised over the period during which royalty revenues are derived from each product.

Net cash outflow before new share capital reduced to \$7.1 million (2007: \$8.0 million) and net proceeds from new capital added \$24.3 million to cash, resulting in strong cash reserves of \$34.4 million at 30 June 2008 (2007: \$17.2 million).

Additional share capital to fund the remaining development of Testosterone MD-Lotion® was raised in July 2007. A Share Placement and Share Purchase Plan added \$23.0 million before expenses and the exercise of employee share options during the year provided \$2.0 million (2007: \$5.5 million).

3.5 million employee share options were issued during the year at an exercise price of \$1.84 per share, representing a 15% premium to the price of the Share Placement and Share Purchase Plan. These options will be exercisable after two years, corresponding to the planned completion of the Phase 3 development of Testosterone MD-Lotion®.

The options provide management with a strong incentive to deliver value to shareholders by successfully completing the Phase 3 programme.

	Year ended 30 June 2008 \$m	Year ended 30 June 2007 \$m	% change
Licensing revenues	3.8	2.9	+33%
Grant income	0.7	1.1	
Interest and other income	2.5	1.1	
Total revenue	7.0	5.1	+38%
Total expenditure before capitalisation	(16.0)	(13.0)	+23%
Loss before capitalised development costs	(9.0)	(7.9)	+14%
Capitalised Testosterone MD-Lotion® Phase 3	3.9	_	
Capitalised Ellavie™ registration	0.3	_	
Loss before tax	(4.8)	(7.9)	
Foreign tax credits written off	(0.2)	_	
Net loss	(5.0)	(7.9)	-36%
Net cash outflow before new capital	(7.1)	(8.0)	-11%
New share capital net proceeds	24.3	5.5	
Net cash inflow/(outflow)	17.2	(2.5)	
Net cash	34.4	17.2	+100%

Prospects and objectives for 2008/09 financial year

The Acrux business is in a truly unique position relative to other Australian biotech companies and as such we are well placed to deliver on our stated goals. Evamist^{\mathbf{I}} is now commercially available in the US, our major projects are fully funded, and we are fortunate to have a highly professional and engaged management team leading our development and commercialisation efforts.

In the months ahead we look forward to reporting on further licensing deals, filing our EllavieTM product with the European regulatory authorities and finalising the patient recruitment in our Testosterone MD-Lotion[®] Phase 3 clinical trial.

The progress over the next 12 months will be central to achieving our objectives of building a successful and profitable Australian biotech company, proud to have Acrux products available to patients all around the world.

COMMERCIALISATION

Secure partnering deal for Ellavie™ ex-USA plus one other product deal

ELLAVIETM

Submit marketing application to European regulatory authority

TESTOSTERONE MD-LOTION®

Complete recruitment of subjects in Phase 3 clinical trial

ANIMAL HEALTH

Eli Lilly submits marketing application to FDA

NESTORONE® CONTRACEPTIVE SPRAYS

Report results of multiple dose clinical trials of two combination products

CASH RESERVES

Maintain above \$15 million at all times

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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, the chief executive officer;
- (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;
- 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 the chief executive officer who, in turn, may delegate to senior management. The delegations to the chief executive officer 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 currently has three non-executive directors and one executive director. One non-executive director retired from the board on 31 October 2007 and as at the date of this report, the board has chosen not to appoint an additional director. The names of the directors at the date of this report, the year of their appointment, their status as non-executive, executive or independent director and whether they retire at the 2008 annual general meeting are set out in the table below. The details of their background, skills and experience are set out on page 17 of this report.

Name	Year Appointed	Non- Executive	Executive	Independent	Retiring at 2008 AGM
Ross Dobinson	1998	Yes	No	No¹	No
Ken Windle	2001	Yes	No	Yes	Yes
Barrie Finnin	1999	Yes	No	Yes²	No
Richard Treagus	2007	No	Yes	No	No

Ross Dobinson was a substantial shareholder until 9 May 2008 and was therefore not considered independent prior to that date.

² Barrie Finnin provided a scientific advisory services to a subsidiary of the Company, as disclosed in the financial report however the board has determined that this contractual relationship is not material and does not impact his independence as a director.

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 non-executive directors. During the period from the retirement of Peter Gillooly on 31 October 2007 to 9 May 2008 when Ross Dobinson ceased to be a substantial shareholder, two directors were considered independent and two were considered not independent. At all other times during and since the end of the financial year a majority of board members were independent. The chair of the board, Ross Dobinson, is a non-executive director and was not considered independent before he ceased to be a substantial shareholder on 9 May 2008. Notwithstanding the board charter and ASX Principle 2.2 recommendation that the chair is an independent director, during the period prior to 9 May 2008 the board determined that at the current stage of the business and considering Ross's close alignment with the interests of shareholders, it was appropriate for him to chair the board. At the same time as Ross was appointed chair in January 2006, Ken Windle was appointed deputy-chair and lead independent director, as recommended in ASX Principle 2.2.

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, who were all appointed prior to the listing of the Company on the Australian Stock Exchange in September 2005, do not have formal letters of appointment. 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 are Ken Windle (Chair), Barrie Finnin and Ross Dobinson. The committee did not formally meet during the year ended 30 June 2008, with the committee's functions being carried out in board meetings rather than in separate committee meetings. The committee has met twice since 30 June 2008, 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.

1.7 Audit and Risk Committee

The members of the audit and risk committee of the board are Ken Windle (Chair), Ross Dobinson and Barrie Finnin. Ken assumed the Chair and Barrie was appointed to the Committee in November 2007 following the retirement of Peter Gillooly. The audit and risk committee met twice during the year ended 30 June 2008, with all members attending. Members are chosen having regard to their skills and experience in relation to the mattes 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;
- 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:
 - the statement given to the board that 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 is founded on a sound system of risk management and control which implements the policies adopted by the board;
 - the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The board received the statement in writing referred to above on $28 \ \text{August } 2008$.

In accordance with the recommendations of ASX Principle 4.2, the committee's charter provides that 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.

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 pages 38 to 45.

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 chief executive officer and the results are subject to further review and approval by the human capital committee. The review of the chief executive officer 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 2008.

A formal review of the performance of the board and its committees was not undertaken during the year ended 30 June 2008.

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 achieve best practice 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. Subject to this trading can occur at any time.

The directors, the chief executive officer, the company secretary and persons reporting directly to the chief executive officer (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;
- (1) any other conduct that may cause financial or non-financial loss to the Company or otherwise be detrimental to the interests of the Company.

DIRECTORS' REPORT

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 2008 and the independent audit report thereon. This financial report has been prepared in accordance with Australian Equivalents of International Financial Reporting 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 loss after income tax and eliminating minority equity interest attributable to the members of Acrux Limited was \$5.0 million (2007: \$7.9 million).

Review of Operations

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 through the skin.

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; typically the partner pays all future costs and Acrux receives licence fees and milestone payments before the product reaches the market, followed by royalties on sales.

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

The consolidated loss for the financial year was \$5.0 million, reduced from the \$7.9 million loss recorded for the prior financial year, with increases in licensing and interest income.

Operating expenditure was reduced by the capitalisation of \$4.2 million product development costs, as required by AASB 138. External research and development expenditure before capitalisation increased to \$7.2 million (2007: \$5.9 million) as the group

progressed the development of a number of products, notably the transition of Testosterone MD-Lotion® into Phase 3.

New share capital raised through a Share Placement and Share Purchase Plan, plus funds received from the exercise of employee share options, increased cash reserves to \$34.4 million from \$17.2 million at 30 June 2007.

Revenue

Total revenue for the financial year was \$7.0 million (2007: \$5.1 million), which includes licensing and research and development agreement revenue of \$3.8 million (2007: \$2.9 million). During the financial year Acrux received a milestone payment of \$3.5 million from its US licensee VIVUS Inc., following the approval from the US Food and Drug Administration (FDA) for marketing of EvaMist™ in the USA. Interest income contributed \$2.6 million, increasing by \$1.5 million from the previous financial year as a result of the inflow of funds from \$24.3 million new share capital raised during the year. Higher interest rates also contributed to the increase in interest income. Grant income reduced to \$0.7 million (2007: \$1.1 million).

Operating Expenditure

Total expenditure, before the capitalisation of development costs relating to Testosterone MD-Lotion® and Ellavie™, increased by \$3.0 million to \$16.0 million (2007: \$13.0 million). External research and development costs before capitalisation increased to \$7.2 million from \$5.9 million in 2007, with progression of Testosterone MD-Lotion® into Phase 3 development the major contributor to this increase, accounting for approximately half the expenditure during the period. External research and development costs also included clinical trials for Fentanyl MDTS®, contraceptive sprays and Nicotine MDTS®. Employee benefits expense, before the capitalisation of development costs, increased to \$4.9 million (2007: \$4.0 million), including the non-cash share options expense of \$0.6 million (2007: \$0.1 million), primarily due to the issue of new employee share options during the period. Excluding the share options expense, employee benefits expense increased by 8%, with a small increase in staff numbers to execute the Phase 3 programme. The significant strengthening of the Australian dollar resulted in \$0.4 million (2007: \$0.2 million) of foreign exchange losses, largely due to the translation of US\$ cash deposits.

In previous financial years, the Directors had determined that no development expenditure satisfied the required criteria for capitalisation as an intangible asset under AASB 138. In July 2007, Estradiol MDTS® (branded EvaMist™ in the USA and Ellavie™ outside the USA), the first product utilising the Acrux delivery platform, was approved for marketing by the FDA. In addition, positive results were achieved in the Phase 2 trial of Testosterone MD-Lotion®. The results were strongly indicative of success in the Phase 3 trial required by regulators. Following these critical milestones, the Directors determined that subsequent development

expenditure on Ellavie™ and Testosterone MD-Lotion® clearly meets the criteria for capitalisation under AASB 138. Acrux has the technical and financial capability to complete development, the expenditure can be reliably measured and the means of generating probable future revenue has been clearly demonstrated by the FDA approval and launch of EvaMist™ and the establishment of various commercial agreements for products utilising the Acrux technology platform. Expenditure of \$0.3 million on Ellavie™ and \$3.9 million on Testosterone MD-Lotion® has been capitalised during the year ended 30 June 2008.

Cash flow

Net cash outflow before new share capital was \$7.1 million (2007: \$8.0 million), the reduction largely due to a higher inflow of income from licensing and research and development agreements plus interest compared with the prior year. Net proceeds from a Share Placement, Share Purchase Plan and the exercise of employee share options added \$24.3 million to cash (2007: \$5.5 million), resulting in cash reserves of \$34.4 million at 30 June 2008 (2007: \$17.2 million).

Contributed Equity

Additional share capital to fund the remaining development of Testosterone MD-Lotion® was raised in July 2007. A Share Placement and Share Purchase Plan added \$23.0 million, before expenses, to equity. Equity added from the exercise of employee share options during the year totalled \$2.0 million (2007: \$5.5 million) with 2.2 million options exercised (2007: 8.2 million). A further 3.5 million employee share options were issued during the financial year, with an exercise price of \$1.84 per share, representing a 15% premium to the price of the Share Placement and Share Purchase Plan. These options will be exercisable after two years, corresponding to the planned completion of the Phase 3 development of Testosterone MD-Lotion®. The options provide management with a strong incentive to deliver value to shareholders by successfully completing the Phase 3 programme. The number of employee share options on issue at the end of the reporting period was 7.4 million (2007: 6.2 million), representing 4.7% of the issued share capital. These options have exercise prices between 69 cents and \$1.84 per share.

Key events

- July 2007 Positive results from Phase 2 US clinical trial for Testosterone MD-Lotion®
- July 2007 \$22.9 million new capital raised from investors in Australia and Europe to fund the Phase 3 development of Testosterone MD-Lotion®
- July 2007 US Marketing approval received from the FDA for EvaMist™
- August 2007 Investigational New Drug Application (IND) for Fentanyl MDTS® accepted by the FDA

- November 2007 Successful phase 1 proof of concept clinical trial for Nicotine MDTS®
- November 2007 New Drug Application (NDA) submitted to the Therapeutic Goods Association (TGA) for Ellavie™
- November 2007 Eli Lilly and Company commenced Phase 3 clinical trial for first animal health product utilising Acrux's delivery technology
- April 2008 Licensee VIVUS announced agreement with the FDA regarding the Special Protocol Assessment (SPA) for phase 3 efficacy trials of Luramist™ (Testosterone MDTS®)
- April 2008 EvaMist™ launched in the US market by licensee KV Pharmaceutical Company
- June 2008 Phase 3 trial of Testosterone MD-Lotion® commenced
- August 2008 Acrux and KV Pharmaceutical Company enter into broad-based licence and product development agreement, allowing Acrux to access to EvaMist™ US clinical data for commercialisation of Ellavie™ in rest of world
- August 2008 Acrux signs commercial manufacturing alliance with Orion Corporation
- August 2008 Following the acquisition of licensee Organon, Schering-Plough discontinues two early-stage product development collaborations.

Significant Changes in the State of Affairs

In July 2007 additional share capital to fund the remaining development of Testosterone MD-Lotion® was raised. The proceeds from a Share Placement and Share Purchase Plan added \$23.0 million, before expenses, to equity and cash reserves with 14,353,750 new ordinary shares issued. At 30 June 2008, cash reserves were \$34.4 million. The number of ordinary shares on issue increased from 142.8 million at the start of the financial year to 159.3 million at 30 June 2008.

Significant commercial progress was made during the financial year. In August 2007 the first product utilising Acrux's patented delivery technology was approved by the FDA and in April 2008 EvaMist™ was launched in the US market by Acrux's licensee. In June 2008 Acrux formally commenced the Phase 3 trial of Testosterone MD-Lotion®. This is the first Phase 3 trial undertaken by Acrux, reflecting the stronger capabilities, lower risk and greater financial capacity of the business.

DIRECTORS' REPORT

After Balance Date Events

On 12 August 2008 Acrux announced an expanded commercial partnership with KV Pharmaceutical Company ('KV'), which markets Acrux's first commercialised product EvaMist™ in the USA. Under the new agreement, KV licensed Acrux's transdermal spray technology for application in six additional products, with the potential to add further products in the future. KV will fund all clinical development costs for each product. Acrux will receive royalties on sales plus milestone payments. The agreement also grants Acrux the rights to use the data contained in KV's FDA filing for EvaMist™ in regulatory filings in all territories outside the USA.

On the same day, Acrux also announced that, with Acrux's consent, VIVUS Inc. had assigned the licence for EvaMist™ to KV. These rights were originally licensed by Acrux to VIVUS, which subsequently sub-licensed the rights to KV.

On 14 August 2008 Acrux announced that it had entered into a commercial manufacturing alliance with European pharmaceutical company Orion Corporation. Orion will manufacture finished products for Acrux on a commercial scale at its FDA-approved facility in Finland. Under the agreement, Acrux has appointed Orion as the exclusive commercial manufacturer of Testosterone MD-Lotion®. Orion will also have the capability to manufacture transdermal spray (MDTS®) finished products exclusively for Acrux.

On 15 August 2008 Acrux was informed that following a portfolio review and re-prioritisation of research and development after its acquisition of Acrux's licensee Organon, Schering-Plough will not proceed with two early-stage product development collaborations. This has no impact on the carrying values of any assets or liabilities.

There has been no other matter or circumstance, which has arisen since 30 June 2008 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2008, of the consolidated entity, or
- (b) the results of those operations, or

the state of affairs, in financial years subsequent to 30 June 2008, of the consolidated entity.

Likely Developments

The Company will continue to pursue its operating strategy to create shareholder value. In the opinion of the directors, disclosure of any further information would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental Regulation

The consolidated entity's operations are subject to 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 have been paid, declared or recommended since the start of the financial year.

Shares Under Option

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

Number of unissued ordinary shares under option	Issue price of shares	Expiry date of the options
75,000	85.0c	August 2008
43,749	\$1.20	December 2008
268,000	\$1.20	February 2009
38,000	\$1.20	April 2009
2,692,495	90.0c	July 2009
10,000	69.0c	April 2010
150,000	77.0c	August 2010
599,000	79.0c	April 2011
100,000	94.0c	September 2011
30,000	\$1.57	March 2012
3,100,000	\$1.84	August 2012
300,000	\$1.84	March 2013
7,406,244		

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

Ordinary shares of Acrux Limited issued during or since the end of the financial year as a result of the exercise of an option were as follows:

Date	Shares issued Number	Amount paid per share \$
18 July 2007	800,000	0.850
24 July 2007	40,000	1.000
2 August 2007	184,282	0.850
9 August 2007	21,000	1.000
14 August 2007	21,000	1.000
6 September 2007	25,000	1.000
7 September 2007	10,000	0.690
13 September 2007	20,000	0.690
25 October 2007	25,000	1.000
30 October 2007	13,000	1.200
5 November 2007	450,000	1.000
9 November 2007	439,998	1.000
7 December 2007	30,000	1.000
21 December 2007	16,000	0.850
21 January 2008	29,167	1.200
6 February 2008	21,000	1.000
13 May 2008	10,000	0.790
11 August 2008	15,000	0.850
25 August 2008	1,000	0.790
Total	2,171,447	

There are no amounts unpaid on shares issued as a consequence of the exercise of options. $\label{eq:conseq}$

DIRECTORS' REPORT

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 of Acrux Limited at any time during or since the end of the financial year is provided below, together with details of the company secretary as at the year end.

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

R Dobinson (Director since 1998)

Please see page 17 of the Annual Report

H K Windle (Director since 2001)

Please see page 17 of the Annual Report

B C Finnin (Director since 1999)

Please see page 17 of the Annual Report

R Treagus (Director since 2007)

Please see page 17 of the Annual Report

P Gillooly (Director from 2004 to 14 November 2007)

Special Responsibilities

Former Non Executive Director and Chair of the Audit and Risk Committee

Qualifications

FAICD

Experience

Peter has extensive business experience and most recently held the position of Chief General Manager at Tattersall's Holdings Pty Ltd. He has held a number of directorships with companies including Burswood Limited, from 2001 to August 2004, Sino Strategic International Ltd (ASX: SSI), from October 2005 to March 2007, and the Rural Finance Corporation of Victoria. He is a Director of the Tasmanian Economic Development Board.

J 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.

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 ¹	
Directors	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	
R Dobinson	12	12	2	2	-	-	
H K Windle	12	12	2	2	-	-	
B C Finnin	12	12	1	1	-	-	
R Treagus	12	11	-	-	-	-	
P Gillooly	5	5	1	1	-	-	

¹ During the financial year Human Capital Committee functions were carried out in board meetings rather than in separate committee meetings. Since 30 June 2008 there have been two Human Capital Committee meetings.

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 2008 are detailed below.

	Total No. of Shares	Total No. of Options
Directors		
R Dobinson	3,355,866	14,583
H K Windle	678,000	14,583
B C Finnin	3,573,606	14,583
R Treagus	110,000	3,992,495
Executives		
J Pilcher	306,000	573,000
A Watkinson	-	525,000
N Wilkins	-	383,000
H Alsop	-	350,000
R Cull	92,000	250,000
C Blower	-	250,000
T Soulis	-	250,000
Total	8,115,472	6,617,244

Directors' Interests in Contracts

Directors' interests in contracts are disclosed in Note 24 to the financial statements.

Auditor's Independence Declaration

A copy of the auditor's independence declaration 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:

Amounts paid or payable to an auditor for	2008	2007
non-audit services provided during the year by the auditor to any entity that is part of the consolidated entity for:	\$	\$
Taxation services	-	700
Other assurance services	23,010	38,817

REMUNERATION REPORT

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:
 - 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 the chief executive officer), 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 comprises 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.

Business Objectives

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 objectives are segmented into various business areas relevant to the business plan. Stretch targets beyond the business objectives are set at the same time.

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. There are different levels of short term incentive plan, with senior executives, other than the CEO, 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 and stretch targets.
- The level of achievement of the business objectives and stretch targets 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 forms part of their assessment for short term incentive plan payments.

The business objectives are clearly defined outcomes in product development and commercialisation, achievement of which can be readily 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.

Long Term Incentive Plans

The purpose of the long term incentive plans are to align the interests of the senior executives more closely with those of the shareholders to achieve long term sustained superior performance. There are two plans currently in place: an Employee Share Option Plan and an individual plan in respect of the Chief Executive Officer.

The key principles of the 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 is typically 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.

Options have also been granted under the employment contract of the Chief Executive Officer. The terms of these options are detailed below.

The board has also approved an Employee Share Purchase Plan. Under this plan, for every four shares in the Company purchased by an eligible employee, the Company will provide one free share up to a maximum value of \$1,000 per financial year. The Company will also pay brokerage costs associated with the share purchases. At the date of this report, an offer under the plan has not yet been made.

Remuneration and Termination of the Chief Executive Officer and Senior Management

The Chief Executive Officer and Managing Director, Dr Richard Treagus, is employed under an employment contract which may be terminated by either party by giving three months notice in writing. If the Company terminates the contract, Dr Treagus is entitled to a termination payment on expiry of the notice period equal to three months' fixed remuneration. Dr Treagus' remuneration comprises 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 is dependent on the achievement of business objectives, set by the board. The board has absolute discretion over the level of bonus payable.

On 5 July 2006, options to acquire 2,692,495 shares were granted to Dr Treagus at an exercise price of 90 cents per share, representing 2% of the Company's issued share capital at the date of Dr Treagus' appointment. The closing share price on the grant date was 75 cents. These options became exercisable after one year and expire after three years. Further options to acquire \$1,300,000 shares were granted to Dr Treagus under the terms of the Employee Share Option Plan on 30 August 2007 at an exercise price of \$1.84 per share, representing a 15% premium to the price of the share placement conducted in July 2007.

Other senior executives have no fixed term of employment and either party may terminate the employment contract on varing periods of written notice, six months (J. Pilcher and A. Watkinson), three months (N. Wilkins and C. Blower), or one month (H. Alsop, R. Cull and T. Soulis).

Other than statutory and contractual entitlements, no termination benefits are payable to senior executives on termination of employment.

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
A Watkinson	Chief Scientific Officer
N Wilkins	Director of Business Development
H Alsop	Director of Business Development
R Cull	Director of Regulatory Affairs and Quality
C Blower	Director of Product Development and Technical Affairs – Appointed September 2007
T Soulis	Director of Clinical Development - Appointed September 2007

REMUNERATION REPORT

Share Options

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

Options over unissued ordinary shares granted by Acrux Limited during or since the financial year-end to Directors and Executives as part of their remuneration were as follows:

Terms and conditions for each grant

					Terms and conditions for each grant		ii grant
	Vested Number	Granted Number	Grant Date	Value per option at grant date	Exercise Price \$	First Exercise Date	Last Exercise Date
Directors							
R Treagus¹	2,692,495	-	5/07/06	0.13	0.900	5/07/07	5/07/09
R Treagus²	-	1,300,000	30/08/07	0.37	1.840	30/08/09	30/08/12
Executives							
J Pilcher²	100,000	-	19/04/06	0.24	0.790	19/04/08	19/04/11
J Pilcher²	-	300,000	30/08/07	0.37	1.840	30/08/09	29/08/12
A Watkinson ²	150,000	-	25/08/05	0.18	0.770	25/08/07	25/08/10
A Watkinson ²	125,000	-	19/04/06	0.24	0.790	19/04/08	19/04/11
A Watkinson ²	-	250,000	30/08/07	0.37	1.840	30/08/09	29/08/12
N Wilkins²	85,000	-	19/04/06	0.24	0.790	19/04/08	19/04/11
N Wilkins²	-	250,000	30/08/07	0.37	1.840	30/08/09	29/08/12
H Alsop²	-	250,000	30/08/07	0.37	1.840	30/08/09	29/08/12
R Cull ²	-	250,000	30/08/07	0.37	1.840	30/08/09	29/08/12
C Blower ²	-	250,000	4/03/08	0.15	1.840	4/03/10	4/03/13
T Soulis²	-	250,000	30/08/07	0.37	1.840	30/08/09	29/08/12
Total	3,152,495	3,100,000					

Options become exerciseable 1 year after grant and expire 3 years after grant. Exercise price was 20% greater than the closing market price at date of grant.

(b) Shares issued on exercise of compensation options

Shares issued on exercise of compensation options during or since the end of the financial year by Directors and Executives were as follows:

	Shares issued Number	Amount paid per share \$	Amount unpaid per share \$
Directors			
R Dobinson	150,000	1.000	-
H K Windle	150,000	1.000	-
B C Finnin	150,000	1.000	-
Past Directors			
P Gillooly	29,167	1.200	-
Executives			
J Pilcher	300,000	1.000	-
N Wilkins	30,000	0.690	-
Total	809,167		-

² Options become exerciseable 2 years after grant and expire 5 years after grant. Exercise price was 15% greater than the closing market price at date of grant.

For the purposes of disclosure of Executives' remuneration in the table below, options historically 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.

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

	Primary		Post employment	Equity	Total	Equity as % of Total	Bonus as % of Total
2008 Current Employees	Salary \$	Bonus*	Super \$	Options \$	\$	%	%
J Pilcher	182,882	24,728	13,129	55,997	276,736	20%	9%
A Watkinson	163,974	22,982	19,129	52,888	258,973	20%	9%
N Wilkins	140,800	18,432	12,786	46,828	218,846	21%	8%
H Alsop	161,453	19,788	13,129	49,219	243,589	20%	8%
R Cull	129,762	15,478	33,129	38,469	216,838	18%	7%
C Blower¹	106,271	-	15,450	6,025	127,746	5%	0%
T Soulis²	125,519	13,855	11,642	38,469	189,485	20%	7%
	1,010,661	115,263	118,394	287,895	1,532,213	19%	8%
2007 Current Employees							
J Pilcher	171,720	-	12,686	12,208	196,614	6%	0%
A Watkinson	154,100	-	18,186	29,120	201,406	14%	0%
N Wilkins	128,000	-	11,520	13,886	153,406	9%	0%
H Alsop³	137,414	-	11,444	8,870	157,728	6%	0%
R Cull ⁴	107,485	-	9,515	-	117,000	0%	0%
Past Employees							
T Saunders ⁵	168,944	-	12,600	-	181,544	0%	0%
P Willcocks ⁶	110,204	-	1,012	-	111,216	0%	0%
G Bolland ⁷	12,497	-	473	-	12,970	0%	0%
	990,364	-	77,436	64,084	1,131,884	6%	0%

^{*} Bonus relates to achievement of business objectives in the financial year ended 30 June 2007. The amount of bonus paid was 60% of the maximum amount payable to each executive.

 $^{{}^{\}scriptscriptstyle I}\operatorname{Appointed}\operatorname{Director}\operatorname{of}\operatorname{Product}\operatorname{Development}\operatorname{and}\operatorname{Technical}\operatorname{Affairs}\operatorname{September}\operatorname{2007}.$

² Appointed Director of Clinical Development September 2007.

³ Appointed Director of Business Development August 2006.

⁴ Appointed Director of Regulatory Affairs and Quality October 2006.

 $^{^{\}scriptscriptstyle 5}$ Resigned as Director of Project Management June 2007.

⁶ Resigned as General Counsel and Company Secretary July 2006. The position of General Counsel was made redundant in June 2006. Peter was not required to serve his contractual 6 month notice period. The amount disclosed in the above table in respect of salary includes termination payments comprising contractual entitlements of \$86,575 and a redundancy payment of \$10,175.

⁷ Retired as Director of Strategic Alliances July 2006.

REMUNERATION REPORT

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 the chair and \$98,100 per annum for the chair. These fees were last set following the 2004 annual general meeting at which the shareholders resolved to increase the aggregate remuneration of directors from \$300,000 to \$450,000. In addition non-executive directors receive superannuation to the extent required by law and re-imbursement of reasonable expenses incurred by them. More details of non-executive directors' remuneration are set out below.

No retirement allowances are paid to non-executive directors. No equity based remuneration is paid to non-executive directors. In earlier years, part of their remuneration consisted of options, which was considered appropriate given the stage of development of the Company and the inherent requirement to conserve Company funds.

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 historically 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 names of each person who held the position of director at any time during the financial year are provided on page 36. Details of their remuneration are set out in the following table:

	Primar Salary/ Director's fees \$	Bonus*	Post employment	Equity	Total	Equity as % of Total	
	Director's fees	Bonus*					Bonus as % of Total
2008		\$	Super \$	Options \$	\$	%	
R Dobinson	98,100	-	-	-	98,100	0%	0%
H K Windle	60,000	-	5,400	-	65,400	0%	0%
B C Finnin	60,000	-	5,400	-	65,400	0%	0%
R Treagus ¹	286,798	162,000	29,296	204,680	682,774	30%	24%
Past Directors							
P Gillooly ²	25,000	-	2,250	-	27,250	0%	0%
	529,898	162,000	42,346	204,680	938,924	22%	17%
2007							
R Dobinson	98,100	-	-	-	98,100	0%	0%
H K Windle	60,000	-	5,400	-	65,400	0%	0%
B C Finnin	60,000	-	5,400	-	65,400	0%	0%
R Treagus ¹	287,860	-	12,686	334,076	634,622	53%	0%
Past Directors							
P Gillooly ²	60,000	-	5,400	-	65,400	0%	0%
N D'Aquino³	60,000	-	-	-	60,000	0%	0%
I Gonda ⁴	228,792	-	2,114	-	230,906	0%	0%
J L Foght⁵	-	-	-	-	-	0%	0%
	854,752	-	31,000	334,076	1,219,828	27%	0%

^{*} Bonus relates to achievement of business objectives in the financial year ended 30 June 2007. The amount of bonus paid was 90% of the maximum amount payable.

¹ Appointed Chief Executive Officer on 11 May 2006 and appointed Managing Director on 3 April 2007.

² Resigned as Director on 14 November 2007.

³ Resigned as Director on 30 June 2007.

⁴ Ceased to be Chief Executive Officer 10 August 2006 and Director on 31 October 2006.

⁵ Resigned as Director on 3 July 2006.

Number of options granted as remuneration that have been exercised or lapsed during the financial year:

Directors and Executives	Balance 01/07/2007	Granted as Remuneration	Exercised	Lapsed	Balance 30/06/2008	Total Vested & Exercisable 30/06/2008	Total Unexercisable 30/06/2008
Directors							
R Dobinson	164,583	-	(150,000)	-	14,583	14,583	-
H K Windle	164,583	-	(150,000)	-	14,583	14,583	-
B C Finnin	164,583	-	(150,000)	-	14,583	14,583	-
R Treagus	2,692,495	1,300,000	-	-	3,992,495	2,692,495	1,300,000
Past Directors							
P Gillooly	29,167	-	(29,167)	-	-	-	-
Executives							
J Pilcher	573,000	300,000	(300,000)	-	573,000	273,000	300,000
A Watkinson	275,000	250,000	-	-	525,000	275,000	250,000
N Wilkins	163,000	250,000	(30,000)	-	383,000	133,000	250,000
H Alsop	100,000	250,000	-	-	350,000	-	350,000
R Cull	-	250,000	-	-	250,000	-	250,000
C Blower	-	250,000	-	-	250,000	-	250,000
T Soulis	-	250,000	-	-	250,000	-	250,000
Total	4,326,411	3,100,000	(809,167)	-	6,617,244	3,417,244	3,200,000

REMUNERATION REPORT

Value of options granted as remuneration that have been exercised or lapsed during the financial year:

Directors and Executives	Balance 01/07/2007	Value Granted	Value Exercised	Value Lapsed	Balance 30/06/2008
	\$	\$	\$	\$	\$
Directors					
R Dobinson ¹	4,885	-	-	-	4,885
H K Windle ¹	4,885	-	-	-	4,885
B C Finnin ¹	4,885	-	-	-	4,885
R Treagus	338,716	479,440	-	-	818,156
Past Directors					
P Gillooly	9,771	-	(9,771)	-	-
Executives					
J Pilcher¹	74,287	110,640	-	-	184,927
A Watkinson	58,283	92,200	-	-	150,483
N Wilkins	42,225	92,200	(6,534)	-	127,891
H Alsop	21,470	92,200	-	-	113,670
R Cull	-	92,200	-	-	92,200
C Blower	-	37,275	-	-	37,275
T Soulis	-	92,200	-	-	92,200
Total	559,407	1,088,355	(16,305)	-	1,631,457

 $^{^{1} \}textit{Options exercised during the year were issued prior to 7} \textit{November 2002 and were not required to be valued under transitional arrangements for first time adoption of AIFRS.}$

Number of shares held by Key Management Personnel

Directors and Executives	Balance 01/07/2007	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30/06/2008
Directors					
R Dobinson ¹	12,772,558	-	150,000	(9,566,692)	3,355,866
H K Windle	480,000	-	150,000	48,000	678,000
B C Finnin	3,223,606	-	150,000	200,000	3,573,606
R Treagus	100,000	-	-	10,000	110,000
Past Directors					
P Gillooly ²	500,000	-	29,167	150,000	679,167
-					
Executives	20.000		200.000	(14.000)	20/ 000
J Pilcher	20,000	-	300,000	(14,000)	306,000
A Watkinson	-	-	-	-	-
N Wilkins	-	-	30,000	(30,000)	-
H Alsop	-	-	-	-	-
R Cull	12,700	-	-	79,300	92,000
C Blower	-	-	-	-	-
T Soulis	-	-	-	-	-
Total	17,108,864	-	809,167	(9,123,392)	8,794,639

 $^{^1 \} In \ March \ 2008 \ Ross \ Dobinson's \ shareholding \ of \ 14,320,413 \ shares \ was \ seized \ and \ sold \ by \ ANZ \ Banking \ Group \ following \ the \ collapse \ of \ Opes \ Prime. \ He \ subsequently \ repurchased \ 3,355,866 \ shares.$

² Resigned as Director on 14 November 2007.

DIRECTORS' REPORT

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.

R Dobinson Chairman

Melbourne

Dated this 28th day of August 2008

Muca

H K Windle Director Melbourne

Dated this 28th day of August 2008



AUDITOR'S INDEPENDENCE DECLARATION To the Directors of Acrux Limited

In relation to the independent audit for the year ended 30 June 2008, 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 Schonberg

Dated this 28th day of August 2008

Pet Pr

PITCHER PARTNERS

Melbourne



CONSOLIDATED INCOME STATEMENT

2008 \$'000 3,165 (1,040) - - (257) (300)	2007 \$'000 1,996 (557) - (11) (358) (261)
(1,040) - - - (257)	(557) - - (11) (358)
- (257)	(11)
,	(358)
,	(358)
,	(358)
,	,
(300)	(261)
-	
	-
(8)	(13)
(79)	(85)
(47)	(56)
-	-
(42)	(53)
(1,773)	(1,394)
1,392	602
-	-
1,392	602
1,392	602
-	-
1,392	602
	(79) (47) (42) (1,773) 1,392 - 1,392 1,392



CONSOLIDATED BALANCE SHEET

		Consolid	Consolidated Entity		Parent Entity	
	Notes	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	
CURRENT ASSETS	•				-	
Cash and cash equivalents	7	34,366	17,227	30,373	16,608	
Receivables	8	624	791	15,026	11,520	
TOTAL CURRENT ASSETS		34,990	18,018	45,399	28,128	
NON-CURRENT ASSETS						
Deferred tax assets	9	253	311	-	-	
Other financial assets	10	-	-	41,027	32,027	
Plant and equipment	11	912	1,052	-	-	
Intangible assets	12	5,112	988	-	-	
TOTAL NON-CURRENT ASSETS		6,277	2,351	41,027	32,027	
TOTAL ASSETS		41,267	20,369	86,426	60,155	
CURRENT LIABILITIES						
Payables	13	2,827	1,871	255	278	
Provisions	14	247	190	30	17	
TOTAL CURRENT LIABILITIES	•	3,074	2,061	285	295	
NON-CURRENT LIABILITIES						
Provisions	14	84	62	1	1	
TOTAL NON-CURRENT LIABILITIES	•	84	62	1	1	
TOTAL LIABILITIES	•	3,158	2,123	286	296	
NET ASSETS		38,109	18,246	86,140	59,859	
EQUITY						
Contributed equity	15	83,135	58,813	83,135	58,813	
Reserves	16 (a)	1,570	1,010	1,570	1,010	
Accumulated profit/(losses)	16 (b)	(46,596)	(41,577)	1,435	36	
Parent entity interest		38,109	18,246	86,140	59,859	
Minority interest	17	-	-	-	-	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Consolidated Entity		Parent Entity	
	Notes	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
TOTAL EQUITY AT THE BEGINNING OF THE YEAR		18,246	20,583	59,859	53,733
Employee share options	16 (a)	567	51	567	51
NET INCOME DIRECTLY RECOGNISED IN EQUITY		567	51	567	51
Profit/(Loss) for the year after tax		(5,026)	(7,861)	1,392	602
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE PERIOD		(4,459)	(7,810)	1,959	653
Attributable to:					
Members of Acrux Limited		(4,459)	(7,809)	1,959	653
Minority interest		-	(1)	-	-
		(4,459)	(7,810)	1,959	653
TRANSACTIONS WITH EQUITY HOLDERS IN THEIR CAPACITY AS EQUITY HOLDERS:					
Contributions	15 (b)	24,322	5,473	24,322	5,473
TOTAL EQUITY AT THE END OF THE YEAR		38,109	18,246	86,140	59,859



CONSOLIDATED STATEMENT OF CASH FLOWS

		Consolidated Entity		Parent Entity	
	Notes	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts		5,592	4,598	87	52
Payments to suppliers and employees		(10,543)	(13,286)	(1,165)	(1,490)
Interest received		2,425	1,056	2,281	967
Foreign withholding tax paid		(187)	(66)	-	-
NET CASH FLOWS PROVIDED BY/(USED IN) OPERATING ACTIVITIES	18(a)	(2,713)	(7,698)	1,203	(471)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payment for investments		-	-	(9,000)	(3,000)
Purchase of plant and equipment		(276)	(287)	-	-
Payment for capitalised development costs		(4,194)	-	-	-
Payments for related party loans		-	-	(2,760)	(3,760)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(4,470)	(287)	(11,760)	(6,760)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net proceeds from issues of ordinary shares		24,322	5,473	24,322	5,473
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		24,322	5,473	24,322	5,473
NET INCREASE/(DECREASE) IN CASH HELD		17,139	(2,512)	13,765	(1,758)
Add cash at the beginning of the year		17,227	19,739	16,608	18,366
CASH AT END OF YEAR	18(b)	34,366	17,227	30,373	16,608

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

NOTE 1: BASIS OF PRESENTATION

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

The financial report covers Acrux Limited as an individual parent entity and Acrux Limited and controlled entities as a consolidated entity. Acrux Limited is a company limited by shares, incorporated and domiciled in Australia.

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

The following is a summary of material 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

Compliance with IFRS

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards. Compliance with Australian Equivalents to International Financial Reporting Standards ensures compliance with International Financial Reporting Standards (IFRSs).

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.

(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 controlled during the year and at balance date. Details of the controlled entities are contained in Note 27.

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.

Minority interests in the equity and results of the entities that are controlled are shown separately in the consolidated financial report.

(c) Revenue Recognition

Interest revenue is recognised when receivable.

Revenue from licenses and research and development agreements is recognised upon completion of contracted milestones, which is the trigger point for the right to receive the revenue.

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.

(e) Plant and equipment

Cost and valuation

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

Depreciation

The depreciable amount of all fixed assets are depreciated 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.

The useful lives for each class of assets are:

	2008	2007
Leasehold improvements:	2.2 to 8 years	3 to 8 years
Plant and equipment:	2.5 to 14 years	2.5 to 14 years

(f) Leases

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

Operating Leases

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses in the period in which they are incurred.

FOR THE FINANCIAL YEAR ENDED 30 IUNE 2008

NOTE 1: BASIS OF PRESENTATION cont'd

(g) Intangibles

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

Intellectual Property

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 intellectual property relates to the assignment of the Monash University patents upon which the consolidated entity's product pipeline has been developed.

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 licensee 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 licensee.
- 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 over the period from first commercial sale of the product to the date on which economic benefits to Acrux under a commercial licence agreement cease.

(h) Impairment of assets

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) Taxes

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.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability 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 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.

(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 incurred.

Share-based payments

The group operates an employee share option plan and an employee share scheme. The bonus element over the exercise price for the grant of shares and options is recognised as an expense in the Income Statement 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.

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an expense when the employees become entitled to the shares.

(k) Comparatives

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

(1) Financial Instruments

Financial Assets

Trade receivables are carried at full amounts due less any provision for doubtful debts. A provision for doubtful debts 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 on 30 days from month end.

$Hedge\ Accounting$

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 group documents the relationship between the hedging instruments and hedged items, its risk management objective and its strategy for undertaking the hedge transaction. The group 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

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.

(ii) Cash flow hedge

To qualify as a cash flow hedge the underlying transactions generating the cash flows must be highly probable.

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 Currencies

Functional and presentation currency

The financial statements of each group entity are measured using its functional currency, which is the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, as this is the parent entity's functional and presentation currency.

Transactions and Balances

Transactions in foreign currencies of entities within the consolidated entity 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.

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.

FOR THE FINANCIAL YEAR ENDED 30 IUNE 2008

NOTE 1: BASIS OF PRESENTATION cont'd

(o) Rounding Amounts

The company is of a kind referred to in ASIC Class Order CO 98/0100 and in accordance with that Class Order, amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(p) New Accounting standards and interpretations

A number of accounting standards and interpretations have been issued at the reporting date but are not yet effective. The directors have not yet assessed the impact of these standards or interpretations.

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The group makes certain estimates and assumptions concerning the future, which, by definition will seldom represent actual results. The estimates and assumptions that have a significant inherent risk in respect of estimates based on future events, which could have a material impact on the assets and liabilities in the next financial year, are discussed below:

(a) Income taxes

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the company 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.

(b) Impairment Testing

The Company uses a discounted cash flow model 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 model values each product being developed by the subsidiary by estimating future cashflows and discounting the future net cash flows for the probability of successful commercialisation and for the time value of money, using a 16% cost of capital. 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 and an employee share scheme. The bonus element over the exercise price for the grant of options is recognised as an expense in the Income Statement 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) Credit Risk
- (b) Liquidity Risk
- (c) Interest Rate Risk
- (d) Currency Risk
- (e) Net Fair Values

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

(a) Credit Risk

The consolidated entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the consolidated entity.

(b) Liquidity risk

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, \$34,366,145 (2007: \$17,227,246) to settle these liabilities and to fund operations for the foreseeable future. The consolidated entity does not have an overdraft or loan facility.

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NOTE 3: FINANCIAL INSTRUMENTS AND FINANCIAL RISKS cont'd

(c) Interest rate risk

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

				Fixed	l Interest ra	ite maturin	g in				
	nancial struments		Floating rest rate	1 yea	r or less		interest bearing	amount a	carrying s per the ice Sheet	average e	eighted ffective est rate
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 %	2007 %
(i)	Financial assets										
	Cash	416	1,518	33,947	15,708	3	1	34,366	17,227	7.4	6.3
	Receivables	-	-	-	-	624	791	624	791		
	Total financial assets	416	1,518	33,947	15,708	627	792	34,990	18,018		
(ii)	Financial liabilities										
	Trade creditors	-	-	-	-	642	549	642	549		
	Sundry creditors and accruals	-	-	-	-	2,185	1,322	2,185	1,322		
	Total financial liabilities	-	-	-	_	2,827	1,871	2,827	1,871		

 $The {\it financial liabilities of the consolidated entity are all expected to mature within three months of the reporting date}$

Sensitivity Analysis

A reasonably possible change in the average effective interest rate during the reporting period of 1% would have changed the interest income, net loss and equity of the consolidated entity by approximately \$0.3 million.

(d) Currency Risk

During the reporting period \$3.5 million of licensing revenue and \$3.0 million of external development and licensing expenditure denominated in US dollars were received and incurred by the Consolidated Entity. During the reporting period, exchange rate risk was managed by natural hedging, using US dollar revenues and US dollar cash reserves to fund US dollar expenditure, supplemented where necessary by spot and short-term forward purchases of US dollars. At the reporting date consolidated cash reserves included US\$3.4 million denominated in US dollars, which will be used to fund future US dollar expenditure. Currency risk management strategies are regularly reviewed.

A reasonably possible change of 10% in the AUD/USD exchange rate would not have had a material impact on the net loss or equity of the consolidated entity.

In future periods material amounts of licensing revenue and external development expenditure are expected to be received and incurred denominated in US dollars and in Euros. The majority of future expenditure denominated in US dollars and in Euros will be incurred on the remaining Phase 3 development of Testosterone MD-Lotion. Expenditure on this programme is expected to include approximately US\$6.1 million (of which US\$3.4 million will be funded by US dollar cash reserves) and Euro 3.2 million. A reasonably possible change in the AUD/USD exchange rate of 10% and in the AUD/EURO exchange rate of 5% would change the Australian dollar equivalent of this future expenditure by approximately \$0.3 million and \$0.3 million respectively.

(e) Net fair values

The net fair value of financial assets and financial liabilities approximates their carrying amounts as disclosed in the balance sheet and notes to the financial statements.

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

NOTE 4: REVENUE

	Consolida	Consolidated Entity		Entity
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Revenues from operating activities				•
Revenue from license and research and development agreements	3,841	2,897	-	-
Grant revenue	655	1,147	-	-
Total revenues from operating activities	4,496	4,044	-	-
Revenues from non-operating activities				
Foreign exchange gain	-	-	25	-
Management fees and intra-group services	-	-	151	147
Interest				
Wholly owned entities	-	-	578	864
Other corporations	2,553	1,082	2,411	985
Total interest	2,553	1,082	2,989	1,849
Total revenues from non-operating activities	2,553	1,082	3,165	1,996
Total revenues from continuing operations	7,049	5,126	3,165	1,996

NOTE 5: PROFIT FROM CONTINUING OPERATIONS

	Consolida	Consolidated Entity		Entity
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Profit/(loss) from continuing operations before income tax has been determined after the following specific expenses:				
Employee benefits expense				
Wages and salaries	3,978	3,644	459	491
Workers' compensation costs	16	20	1	3
Superannuation costs	295	268	13	12
Training expenses	33	50	-	-
Share-based payments	567	51	567	51
Total employee benefits expense	4,889	4,033	1,040	557
Capitalised - refer note 12	(468)	-	-	-
Per income statement	4,421	4,033	1,040	557
Depreciation of non-current assets				
Plant and equipment	241	275	-	-
Total depreciation of non-current assets	241	275	-	-
Amortisation of non-current assets				
Leasehold improvements	175	173	-	-
Intellectual property	70	71	-	-
Total amortisation of non-current assets	245	244	-	-
Total depreciation and amortisation expenses	486	519	-	-
Foreign currency exchange losses	433	245	-	11
Rental expense on operating leases	233	224	-	-
External research and development expenses	7,215	5,898	-	-
Capitalised - refer note 12	(3,472)	-	-	-
Per income statement	3,743	5,898	-	-

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

NOTE 6: INCOME TAX

	Consolidated Entity		Parent Entity	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
The prima facie tax, using tax rates applicable in the country of operation, on profit differs from the income tax provided in the financial statements as follows:				
Profit/(loss) before tax from continuing operations	(4,781)	(7,861)	1,392	602
At the statutory income tax rate of 30% (2007: 30%)	(1,434)	(2,358)	418	181
Tax effect of amounts which are not deductible in calculating taxable income				
Share option expense	170	15	170	15
Research and development tax concession	(520)	(941)	-	-
Capitalised development expenses	(1,258)	-	-	-
Tax deductable attributable to equity	(194)	-	(194)	
Foreign tax credits written off	245	-	-	-
Other non allowable items	-	80	-	-
Increase/(decrease) in deferred tax assets not brought to account	3,236	3,204	(394)	(196)
Income tax expense	245	-	-	-
Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductability, set out in Note (i) below, are met:				
Deferred tax asset - Timing differences	2,332	2,185	334	433
Deferred tax asset - Unrecognised tax losses	16,382	14,318	241	529
	18,714	16,503	575	962
(i) Deferred tax relates to the following:				
Tax Assets				
Carrying amount at beginning	311	245	-	-
Foreign tax withheld on licensing income	187	66	-	-
Foreign tax credits written off	(245)	-	-	-
	253	311	-	-

The deferred tax assets not brought to account, will only be utilised if:

- (a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- (b) the conditions for deductibility imposed by tax legislation continue to be complied with; and
- (c) no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

Acrux Limited is a Pooled Development Fund (PDF) and tax concessions apply for PDF's including:

- ---- PDF's are taxed at 15% on income and gains from investments in small to medium enterprises instead of the normal 30% corporate tax rate; and
- --- PDF's are taxed at 25% on other income.

For the purpose of the preparation of these financial statements, the above tax calculations have been calculated at 30% for the consolidated entity, which is the company tax rate applicable to the subsidiary companies.

NOTE 7: CASH AND CASH EQUIVALENTS

		Consolidated Entity		Parent Entity	
	Notes	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Cash on hand		3	1	-	-
Cash at bank		416	1,518	54	1,202
Deposits at call		33,947	15,708	30,319	15,406
		34,366	17,227	30,373	16,608
NOTE 8: RECEIVABLES CURRENT					
Trade receivables		5	139	-	-
Other receivables		432	487	217	87
Prepayments		187	165	41	39
Related party receivables					
- Controlled entities	27	-	-	14,768	11,394
		624	791	15,026	11,520

The amounts receivable by the parent entity from controlled entities exceed the net tangible assets of those entities. However, the Directors believe that the receivables are not materially impaired, due to the substantial progress in the technical and commercial development of the controlled entities' products.

NOTE 9: DEFERRED TAX ASSETS

NON-	CU	RR	ENT

Tax assets comprise:

Foreign withholding taxes paid	6	253	311	-	-
		253	311	-	-

NOTE 10: OTHER FINANCIAL ASSETS

NON-CURRENT

Investments at cost comprise:

Shares

- Controlled entities - unlisted	-	-	41,027	32,027
	-	-	41,027	32,027

The investments by the parent entity in controlled entities exceed the net tangible assets of those entities. However, the Directors believe the investments are not materially impaired, due to the substantial progress in the technical and commercial development of the controlled entities' products.

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

NOTE 11: PLANT AND EQUIPMENT

			nted Entity	Parent	,
	Notes	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Leasehold Improvements					
At cost		1,106	1,103	-	-
Accumulated amortisation		(753)	(578)	-	-
Total leasehold improvements	(a)	353	525	-	-
Plant and equipment					
At cost		1,000	1,215	-	-
Accumulated depreciation		(441)	(688)	-	-
Total plant and equipment	(a)	559	527	-	-
Total plant and equipment		912	1,052	-	-

(a) Reconciliations

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

	Consolidated Entity	
	2008 \$'000	2007 \$'000
Leasehold improvements		•
Carrying amount at beginning	525	687
Additions	3	11
Amortisation expense	(175)	(173)
	353	525
Plant and equipment		
Carrying amount at beginning	257	561
Additions	273	241
Depreciation expense	(241)	(275)
	559	527

NOTE 12: INTANGIBLE ASSETS

	Consoli	Consolidated Entity		Entity
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
INTELLECTUAL PROPERTY				
At cost	1,200	1,200	-	-
Accumulated amortisation	(282)	(212)	-	-
Net carrying amount	918	988	-	-
CAPITALISED DEVELOPMENT EXPENSES				
Ellavie™				
External research and development expenses	289	-	-	-
	289	-	-	-
Testosterone MD-Lotion®				
External research and development expenses	3,183			
Employee benefits expense	468	-	-	-
Other capitalised expenses	254	-	-	-
	3,905	-	-	-
Net carrying amount	4,194	-	-	-
Total intangible assets	5,112	988	-	-

In previous financial years, the Directors determined that no development expenditure satisfied the required criteria for capitalisation as an intangible asset under AASB 138. The Accounting Standard requires that development expenses are capitalised as an asset generating probable future economic benefits if a number of criteria are met. The Directors believe that the following key milestones achieved during the reporting period mean that these criteria have now been met for two products, $Ellavie^{TM}$ and Testosterone MD-Lotion*:

- Estradiol MDTS® (branded EvaMist™ in the USA and Ellavie™ outside the USA), the first product utilising the Acrux delivery platform, was approved for marketing by the Food and Drug Administration (FDA) in the US.
- Positive results were achieved in the Phase 2 trial of Testosterone MD-Lotion®. The results were strongly indicative of success in the Phase 3 trial required by regulators.

Acrux has the technical and financial capability to complete development of these two products, the expenditure can be reliably measured and the means of generating probable future revenue has been clearly demonstrated by the FDA approval of EvaMist TM and the establishment of various commercial agreements for products utilising the Acrux technology platform.

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

NOTE 13: PAYABLES

	Conso	Consolidated Entity		ent Entity
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
CURRENT				
Trade creditors	642	549	14	15
Sundry creditors and accruals	2,185	1,322	241	263
	2,827	1,871	255	278
NOTE 14: PROVISIONS				
CURRENT				
Employee entitlements	247	190	30	17
NON-CURRENT				-
Employee entitlements	84	62	1	1
Aggregate employee entitlements liability	331	252	31	18

NOTE 15: CONTRIBUTED EQUITY

		Consolida	Consolidated Entity		t Entity
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
a)	Issued and paid up capital				
	Ordinary shares fully paid	83,135	58,813	83,135	58,813
(b)	Movements in shares on issue				
	Beginning of the financial year			58,813	53,340
	Issued during the year:				
	Capital Raising				
	- 1,835,855 on the 30 November 2007			2,937	
	- 291,250 on the 23 August 2007			466	
	- 12,226,645 on the 24 July 2007			19,562	
	Employee share option plans				
	- 10,000 on the 13 May 2008			8	
	- 21,000 on the 6 February 2008			21	
	- 29,167 on the 21 January 2008			35	
	- 16,000 on the 21 December 2007			14	
	- 30,000 on the 7 December 2007			30	
	- 439,998 on the 9 November 2007			440	
	- 450,000 on the 5 November 2007			450	
	- 13,000 on the 30 October 2007			16	
	- 25,000 on the 25 October 2007			25	
	- 20,000 on the 13 September 2007			14	
	- 10,000 on the 7 September 2007			7	
	- 25,000 on the 6 September 2007			25	
	- 21,000 on the 14 August 2007			21	
	- 21,000 on the 9 August 2007			21	
	- 184,282 on the 2 August 2007			157	
	- 40,000 on the 24 July 2007			40	
	- 800,000 on the 18 July 2007			680	
	- 27,000 on the 14 June 2007				32
	- 25,000 on the 6 June 2007				26
	- 36,000 on the 8 May 2007				36
	- 60,000 on the 11 April 2007				51
	- 220,620 on the 9 February 2007				147
	- 272,244 on the 6 February 2007				182
	- 29,568 on the 2 February 2007				20
	- 3,933,191 on the 1 February 2007				2,622
	- 343,679 on the 22 January 2007				229
	- 389,021 on the 19 January 2007				259

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

NOTE 15: CONTRIBUTED EQUITY continued

	Par	ent Entity
	2008 \$'000	2007 \$'000
- 205,362 on the 11 January 2007		137
336,199 on the 5 January 2007		224
- 177,019 on the 2 January 2007		118
292,967 on the 20 December 2006		195
- 1,100,000 on the 13 December 2006		734
407,400 on the 7 December 2006		272
90,000 on the 28 November 2006		60
170,000 on the 17 November 2006		113
60,000 on the 13 October 2006		40
Less Capital Raising Expenses	(647)	(24)
Contributions from share issues	24,322	5,473
At reporting date	83,135	58,813
	No.	No
Beginning of the financial year	142,800,019	134,624,749
Capital Raising		
- 30 November 2007	1,835,855	
- 23 August 2007	291,250	
- 24 July 2007	12,226,645	
Employee share option plans		
- 13 May 2008	10,000	
6 February 2008	21,000	
21 January 2008	29,167	
21 December 2007	16,000	
7 December 2007	30,000	
9 November 2007	439,998	
5 November 2007	450,000	
30 October 2007	13,000	
25 October 2007	25,000	
13 September 2007	20,000	
7 September 2007	10,000	
6 September 2007	25,000	
14 August 2007	21,000	
9 August 2007	21,000	
2 August 2007	184,282	
24 July 2007	40,000	
- 18 July 2007	800,000	

	Parent Entity
	2008 2007 No. No.
- 14 June 2007	27,000
- 6 June 2007	4,000
- 6 June 2007	21,000
- 8 May 2007	36,000
- 11 April 2007	60,000
- 9 February 2007	220,620
- 6 February 2007	272,244
- 2 February 2007	29,568
- 1 February 2007	3,933,191
- 22 January 2007	343,679
- 19 January 2007	389,021
- 11 January 2007	205,362
- 5 January 2007	336,199
- 2 January 2007	177,019
- 20 December 2006	292,967
- 13 December 2006	1,100,000
- 7 December 2006	407,400
- 28 November 2006	90,000
- 17 November 2006	170,000
- 13 October 2006	60,000
At reporting date	159,309,216 142,800,019

FOR THE FINANCIAL YEAR ENDED 30 IUNE 2008

NOTE 15: CONTRIBUTED EQUITY cont'd

(c) Share Options

Options over ordinary shares:

Employee share option plans

The Company continued to offer participation in long term incentive schemes as part of the remuneration packages for the employees of the Company and its controlled entities.

There are two employee share option plans, the Employee Share Option Plan, and an option scheme under the contract of the Chief Executive Officer.

Employee Share Option Plan

The objective of the plan is to assist in the recruitment, reward, retention and motivation of key employees, which the board believes is important for the long term growth of the business. The plan rules may be amended by the board at its discretion, or as required by the ASX Listing Rules. Options hold no participation rights, but shares issued on exercise of options rank equally with existing shares. Options may not be exercised until 2 years after the grant date and expire 5 years after the grant date. The exercise price will be determined by the board, but will not be less than the market price of the shares on an exchange on the grant date. All unexercised options become exercisable if a takeover bid is made and the board becomes aware that the offeror has more than 20% of the issued shares. Options may not be granted if the number of shares issued following the exercise of all outstanding options under the plan, plus the shares issued during the previous 5 years under the plan, would exceed 10% of the total issued shares. In previous financial years, options were granted to non-executive directors as part of their remuneration. Details of options held by directors are shown in the Remuneration Report section of the Directors' Report.

During the financial year, 3,450,000 options (2007: 130,000) were granted under the plan to provide incentive to management throughout the period of the Phase 3 development of Testosterone MD-Lotion®, following the announcement of positive results of the Phase 2 clinical trial. The options were granted at an exercise price of \$1.84 per share, representing a 15% premium on the price of the share placement completed to fund the Phase 3 programme.

CEO contract

Options were granted to the CEO under the terms of his employment contract. On 5 July 2006 2,692,495 options representing 2% of the issued Share Capital, as at the date of his employment contract, were granted to the CEO at an exercise price of 90 cents. These options became exercisable after one year and must be exercised within three years of grant. The closing share price on the grant date was 75 cents. Options hold no participation rights, but shares issued on exercise of options rank equally with existing shares. All unexercised options become exercisable if a takeover bid is made and the board becomes aware that the offeror has more than 20% of the issued shares.

During the financial year ended 30 June 2008 no options were granted to the CEO under his employment contract. 1,300,000 options were granted to the CEO under the employee share option plan, the terms of which are detailed above.

The closing market value of an ordinary Acrux Limited share on the Australian Stock Exchange at 30 June 2008 was \$1.22.

	Consolidated Entity		Pare	ent Entity
	2008 No.	2007 No.	2008 No.	2007 No.
(i) Movement in the number of share options held under Employee Share Option Plan and CEO contract are as follows:	•			
Opening balance	6,216,691	17,673,042	6,216,691	17,673,042
Granted during the year	3,450,000	2,822,495	3,450,000	2,822,495
Exercised during the year	(2,155,447)	(8,175,270)	(2,155,447)	(8,175,270)
Lapsed during the year	(89,000)	(6,103,576)	(89,000)	(6,103,576)
Closing balance	7,422,244	6,216,691	7,422,244	6,216,691
	\$'000	\$'000	\$'000	\$'000
(ii) Details of share options exercised during the year:	•			•
Proceeds from shares issued	2,004	5,497	2,004	5,497
Fair value as at issue date of shares issued during the year	3,226	6,524	3,226	6,524

(c) Share Options (Continued)

Fair value of shares issued during the reporting period at their issue date is estimated to be the market price of shares of the parent entity on the Australian Stock Exchange as at close of trading on the issue dates. The fair value of shares at date of issue was:

Issue Date	Fair Value	Number of Shares Issued
13 May 2008	1.060	10,000
6 February 2008	1.080	21,000
21 January 2008	1.200	29,167
21 December 2007	1.390	16,000
7 December 2007	1.350	30,000
9 November 2007	1.300	439,998
5 November 2007	1.380	450,000
30 October 2007	1.350	13,000
25 October 2007	1.320	25,000
13 September 2007	1.360	20,000
7 September 2007	1.400	10,000
6 September 2007	1.400	25,000
14 August 2007	1.490	21,000
9 August 2007	1.520	21,000
2 August 2007	1.550	184,282
24 July 2007	1.660	40,000
18 July 2007	1.700	800,000
		2,155,447

(iii) Details of options granted during the financial year:

		Value per	Share Option Valuation Inputs					
Grant Date	Granted Number	option at grant date	Exercise Price \$	Share Price at Grant \$	Days to Expiration	Risk Free Rate ¹ %	Expected Volatility ² %	Expected Dividends
30/08/07	3,150,000	0.37	1.840	1.460	1,826	6.09%	32.00%	-
4/03/08	300,000	0.15	1.840	0.930	1,826	6.20%	31.00%	-
	3,450,000							

The value of each option has been calculated using a Bionomial method.

¹ Risk free rate is the Reserve Bank of Australia's cash rate at the options grant date.

² Volatility is calculated using the historical movements in the Company's share price since listing on the Australian Stock Exchange. The rate has been discounted to reflect the probability of staff remaining employed during the life of the options. The discount rate is a reflection of the historical staff turnover rate.

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

NOTE 15: CONTRIBUTED EQUITY cont'd

(iv) Details of lapsed options

Grant Date	Granted Number	Exercise Price
19/04/06	19,000	0.790
25/02/04	20,000	1.200
30/08/07	50,000	1.840
	89,000	

NOTE 16: RESERVES AND ACCUMULATED LOSSES

			Consolidated Entity		Entity
	Notes	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Share based payment reserve	(a)	1,570	1,010	1,570	1,010
Accumulated profit/(losses)	(b)	(46,596)	(41,577)	1,435	36

(a) Share based payment reserve

(i) Nature and purpose of reserve

Balance at the beginning of year

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

	Employee share option expense for the period (including adjustment for service conditions not met)	567	51	567	51	
	Vested employee share options previously expensed, that lapsed during the period	(7)	(1,147)	(7)	(1,147)	
	Balance at end of year	1,570	1,010	1,570	1,010	
(b)	Accumulated profit/(losses)					
	Balance at the beginning of year	(41,577)	(34,864)	36	(1,713)	
	Vested employee share options that lapsed during the period	7	1,147	7	1,147	
	Net profit/(loss) attributable to members of Acrux Limited	(5,026)	(7,860)	1,392	602	
	Accumulated profit/(losses) at reporting date	(46,596)	(41,577)	1,435	36	

1,010

2,106

1,010

2,106

NOTE 17: MINORITY INTEREST IN CONTROLLED ENTITIES

	Notes	Consolidated Entity		Parent Entity	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Minority interest comprises:					
Contributed equity	(a)	51	51	-	-
Accumulated losses	(b)	(51)	(51)	-	-
		-	-	-	-
(a) Minority interest in issued and paid-up capital of controlled entities					
- Cosmeceutic Solutions Pty Ltd - Fully paid ordinary shares		51	51	-	-
b) Accumulated losses					
Opening balance		(51)	(50)	-	-
- Share of operating loss attributed to the minority		-	(1)	-	-
Closing balance		(51)	(51)	-	-

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

NOTE 18: CASH FLOW INFORMATION

		Consolidated Entity		Parent Entity	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
	Reconciliation of the net profit/(loss) after tax to the net cash flows from operations:				•
	Net profit/(loss)	(5,026)	(7,861)	1,392	602
	Non-Cash Items				
	Depreciation and amortisation	486	519	-	-
	Share based payments	567	51	567	51
	Inter-group charges not received in cash	-	-	(36)	(74)
	Inter-group interest not received in cash	-	-	(578)	(864)
	Changes in assets and liabilities				
	Decrease/(Increase) in deferred tax assets	58	(66)	-	-
	Decrease/(Increase) in trade and other receivables	167	181	(132)	(12)
	(Decrease)/Increase in trade and other creditors	956	(496)	(23)	(137)
	(Decrease)/Increase in employee entitlements	79	(26)	13	(37)
		2,313	163	(189)	(1,073)
	Net cash flow from operating activities	(2,713)	(7,698)	1,203	(471)
(b)	Reconciliation of cash				
	Cash balance comprises:				
	- Cash on hand	3	1	-	-
	- Cash at bank	416	1,518	54	1,202
	- At call deposits with financial institutions	33,947	15,708	30,319	15,406
	Closing cash balance	34,366	17,227	30,373	16,608

(c) Credit stand by arrangement and loan facilities

The consolidated entity have credit card facilities with the National Australia Bank and American Express available to the extent of \$156,000 (2007: \$149,000). As at 30 June 2008 the consolidated entity and parent entity have unused facilities of \$147,762 (2007: \$129,300).

NOTE 19: COMMITMENTS

	Consolidated Entity			Entity
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Lease expenditure commitments				
(i) Operating leases				
Non cancellable operating leases contracted for but not capitalised in the accounts:				
Minimum lease payments				
- Not later than one year	242	242	-	-
- Later than one year and not later than five	230	490	-	-
– Aggregate lease expenditure contracted for at reporting date	472	732	-	-

The operating lease relates to office, laboratory and warehouse facilities leased by Acrux DDS Pty Ltd for a period of 4 years, with two options to extend for further periods of 4 years. Acrux DDS Pty Ltd exercised the first of these options and entered into a new lease agreement in June 2006, following a change of the building owners. The lease contract contains market review clauses in the event that Acrux DDS Pty Ltd exercises its second option to renew. The company does not have an option to purchase the leased asset at the expiry of the lease period.

Capital and product development expenditure commitments

Acrux Commercial Pty Ltd, a wholly owned subsidiary of Acrux Limited, entered into an agreement on 7 July 2008 to purchase a manufacturing machine for EURO 397,050. This amount, payable in instalments, is expected to be settled during the 2008/09 financial year. Subsequently on 13 August 2008 Acrux Commercial Pty Ltd entered into a Technology Transfer Agreement under which total required expenditure is estimated as EURO 1.4 million, including the purchase of the manufacturing machine. The remaining expenditure will be incurred in the 2008/09 and 2009/10 financial years.

During the financial year Acrux Pharma Pty Ltd, a wholly owned subsidiary of Acrux Limited, entered into an agreement for clinical trial services relating to the Phase 3 trial of Testosterone MD-Lotion® under which the total required expenditure is estimated as the sum of US\$3.2 million, EURO 1.3 million and A\$0.4 million. The majority of the expenditure will be incurred in the 2008/09 financial year.

NOTE 20: EARNINGS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

	Conso	lidated Entity
	2008 \$'000	2007 \$'000
Earnings used in calculating basic and diluted earnings per share	2008	(7,860
		2007 No of share
Weighted average number of ordinary shares used in calculating basic earnings per share	157,275,805	138,316,189
Basic and diluted earnings per share (\$)	(0.03)	(0.06

FOR THE FINANCIAL YEAR ENDED 30 IUNE 2008

NOTE 21: KEY MANAGEMENT PERSONNEL COMPENSATION

Details of Key Management Personnel Compensation are contained within the Remuneration Report section of the Director's Report.

NOTE 22: KEY MANAGEMENT PERSONNEL'S EQUITY HOLDINGS

Details of Key Management Personnel's Equity Holdings are contained within the Remuneration Report section of the Director's Report.

NOTE 23: LOANS TO KEY MANAGEMENT PERSONNEL

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

NOTE 24: RELATED PARTY DISCLOSURES

Wholly-owned group transactions

Loans

Loans made by Acrux Limited to controlled entities under normal terms and conditions. The aggregate amounts receivable from controlled entities by the parent entity at the end of the reporting period were \$14,768,098 (2007: \$11,394,502).

Other transactions with Key Management Personnel and their personally related entities

- (a) As shareholders in the Company, each of the Directors applied to participate in the placement of new shares to sophisticated investors that was announced on 18 July 2007. The issue of 1.8 million shares to Directors under the placement required shareholder approval, which was obtained at the Annual General Meeting on 14 November 2007. Therefore the Company has entered into agreements with each of the Directors, with the following key terms:
 - Each Director made an irrevocable commitment to take up a defined number of shares at \$1.60 per share once shareholder approval was obtained;
 - Interest on the subscription amount of 6.5% per annum from 23 July 2007 to the settlement date was paid to the Company by each Director.
- (b) Professor Barrie Finnin, a director of Acrux Ltd, is a director of Frivolity Pty Ltd. During the year this company provided research and development and Scientific Advisory Board chairmanship services to Acrux DDS Pty Ltd, a subsidiary of Acrux Limited. Fees charged for these services totaled \$72,064 (2007: \$72,064). These fees were charged on a normal commercial basis.
- (c) All other payments made to Key Management Personnel during the financial year related to the reimbursement of expenses incurred on behalf of Acrux Limited and its subsidiaries. These transactions were made at arms length and on a regular commercial basis.

NOTE 25: AUDITOR'S REMUNERATION

	Consolidated Entity		Parent Entity	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Amounts received or due and receivable by Pitcher Partners for:				
 An audit or review of the financial report of the entity and any other entity in the consolidated entity 	69	65	69	65
- Taxation services	-	1	-	1
- Other assurance services	23	38	16	33
	92	104	85	99

NOTE 26: SEGMENT INFORMATION

The consolidated entity has the following business segments and geographical segments:

(a) Business segments

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

(b) Geographical segments

The consolidated entity derives revenue from three geographical segments being Australia, the United States of America and Europe. All assets and liabilities disclosed in the financial statements relate to the Australian segment. Income derived for the year from the United States segment was \$3,535,200 (2007: \$1,489,060). No income was derived from the European Segment (2007: \$1,282,500). Revenue received from both the United States and Europe relates to license and commercialisation agreements for products, upon which work is carried out by Acrux employees in Australia. Acrux does not have an establishment or any employees in any other location. It is not practicable to allocate expenses between segments.

NOTE 27: CONTROLLED ENTITIES

	Country of Incorporation		entage ned
		2008	2007
Parent Entity			
Acrux Limited	Australia		
Subsidiaries of Acrux Limited			
Acrux DDS Pty Ltd	Australia	100%	100%
Fempharm Pty Ltd	Australia	100%	100%
Acrux Pharma Pty Ltd	Australia	100%	100%
Acrux Commercial Pty Ltd	Australia	100%	-
Cosmeceutic Solutions Pty Ltd	Australia	90%	90%

Incorporation of Controlled Entity

On 25 June 2008 the parent entity incorporated a new 100% owned subsidiary, Acrux Commercial Pty Ltd.

NOTE 28: CONTINGENCIES

Acrux Limited has a contingent liability associated with its agreement to provide ongoing financial support to its subsidiaries. Acrux Limited has provided a letter of financial support to its subsidiaries agreeing to provide ongoing financial support to ensure the subsidiaries are able to meet their commitments as and when they fall due.

In accordance with the banking agreement with the National Australia Bank Limited, Acrux Limited has in place a guarantee and indemnity to the value of \$70,000 (2007: \$130,000). This is supported by letters of set-off over amounts on deposit to the value of \$70,000 (2007: \$130,000). This guarantee is pledged as security for the liabilities of Acrux Limited.

In accordance with the banking agreement with National Australia Bank Limited, Acrux DDS Pty Ltd has in place a guarantee and indemnity to the value of \$301,871 (2007: \$301,871). This is supported by letters of set-off over amounts on deposit to the value of \$301,871 (2007: \$301,871). This guarantee is pledged as security for the liabilities of the entity.

In November 2007 Fempharm Pty Ltd, a wholly owned subsidiary of Acrux Limited, made a demand for arbitration under its Development and Commercialisation Agreement for Testosterone MDTS* with Vivus Inc. The demand seeks a reversion of all rights licensed to Vivus related to Testosterone MDTS* (Testosterone spray for women), monetary damages, a portion of a milestone payment under the agreement and declaratory relief. The arbitration process is proceeding, with the parties having selected and qualified a panel of three arbitrators and having agreed to a schedule of pre-hearing discovery. The arbitration hearing is currently scheduled to commence in January 2009. The financial impact on Fempharm Pty Ltd of the dispute outcome has not been determined.

FOR THE FINANCIAL YEAR ENDED 30 IUNE 2008

NOTE 29: SUBSEQUENT EVENTS

On 12 August 2008 Acrux announced an expanded commercial partnership with KV Pharmaceutical Company ('KV'). KV, markets EvaMist™ in the US, Acrux's first commercialised product. Under the new agreement, KV has licensed Acrux's transdermal spray technology for application in six additional products, with the potential to add further products in the future. KV will fund all clinical development costs for each product. Acrux will receive royalties on US sales plus milestone payments. The agreement also grants Acrux the rights to use the data contained in KV's FDA filing for EvaMist™ in regulatory filings in all territories outside the USA. Acrux will immediately use this data to prepare European marketing applications for the product, branded Ellavie ™ in territories outside the US.

On the same day, Acrux also announced that, with Acrux's consent, Vivus assigned the EvaMist™ licence to KV. EvaMist™ was originally licensed by Acrux to Vivus Inc., which subsequently sub-licensed rights to KV. Acrux will now deal directly with KV in relation to its rights under the EvaMist™ licence.

On 14 August 2008 Acrux announced that it had entered into a commercial manufacturing alliance with European pharmaceutical company Orion Corporation. Orion will manufacture finished products for Acrux on a commercial scale, at its FDA-approved facility in Finland. Under the agreement, Acrux has appointed Orion as the exclusive commercial manufacturer of Testosterone MD-Lotion*. Orion will also have the capability to manufacture transdermal spray (MDTS*) finished products exclusively for Acrux.

On 15 August 2008 Acrux was informed that Schering-Plough will not proceed with two early-stage product development collaborations, following a portfolio review and re-prioritisation of research and development performed after its acquisition of Organon. This has no impact on the carrying values of any assets or liabilities.

There has been no other matter or circumstance, which has arisen since 30 June 2008 that has significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2008, of the consolidated entity, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 30 June 2008, of the consolidated entity.

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 47 to 74 in accordance with the Corporations Act 2001:

- (a) Comply with Accounting Standards and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements; and
- (b) Give a true and fair view of the financial position of the company and the consolidated entity as at 30 June 2008 and of their performance as represented by the results of their operations, changes in equity and their cash flows, for the year ended on that date.

In the directors' opinion there are reasonable grounds to believe that Acrux Ltd 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 2008.

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

R Dobinson Chairman

Melbourne

Dated this 28th day of August 2008

H K Windle

Mucu

Director Melbourne

Dated this 28th day of August 2008



INDEPENDENT AUDITOR'S REPORT

To the Members of Acrux Limited

Report on the Financial Report

We have audited the accompanying financial report of Acrux Limited and controlled entities. The financial report comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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



INDEPENDENT AUDITOR'S REPORT continued

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

Independence

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

Auditor's Opinion

In our opinion:

- (a) the financial report of Acrux Limited is in accordance with the *Corporations Act 2001*, including:
 - giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date;
 and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial 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 38 to 45 of the directors' report for the year ended 30 June 2008. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Acrux Limited and controlled entities for the year ended 30 June 2008 complies with section 300A of the Corporations Act 2001.

Stephen Schonberg

Dated this 28th day of August 2008

PITCHER PARTNERS

Pit Pr

Melbourne

SHAREHOLDER INFORMATION

AS AT 22 SEPTEMBER 2008

Shareholders

The Company has 159,400,216 ordinary fully paid shares on issue, held by 2,642 shareholders and 7,331,244 options outstanding, held by 24 people. The Company does not have any other shares or options or other equity securities on issue. Details of the voting rights attached to the fully paid ordinary shares are set out below. No voting rights attach to the options.

All fully paid ordinary shares are quoted on the Australian Stock Exchange. No other equity securities of the Company are quoted on the Australian Stock 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 Shareholders	Percentage	Shares
1 to 1,000 shares	298	0.14%	217,162
1,001 to 5,000 shares	973	1.95%	3,100,155
5,001 to 10,000 shares	495	2.61%	4,156,976
10,001 to 100,000 shares	728	14.30%	22,807,120
100,001 shares and over	148	81.00%	129,118,803
Total	2,642	100.00%	159,400,216

82 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.

The following is a distribution schedule of the number of holders of options of the Company within the bands of holding specified by the ASX Listing Rules:

Category	Number of option holders	Percentage	Options
1 to 1,000 options	2	0.03%	2,000
1,001 to 5,000 options	1	0.05%	4,000
5,001 to 10,000 options	1	0.14%	10,000
10,001 to 100,000 options	8	3.45%	252,749
100,001 options and over	12	96.33%	7,062,495
Total	24	100.00%	7,331,244

Names of Substantial Holders

Name	Number of equity securities held
Orbis Global Equity Fund Limited and associated entities	30,567,973
Walker Group Holdings Pty Limited	13,355,866
Queensland Investment Corporation	8,922,294

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. As Acrux Limited has only fully paid ordinary shares and options on issue, under the ASX Listing Rules "equity securities" means those fully paid ordinary shares and options.

Twenty Largest Holders of Fully Paid Ordinary Shares in Acrux Limited

	Shareholder	Number of fully paid ordinary shares	Percentage of total capital
1	Citicorp Nominees Pty Limited	18,021,740	11.31%
2	Walker Group Holdings Pty Limited	13,355,866	8.38%
3	HSBC Custody Nominees (Australia) Limited	10,203,620	6.40%
4	Queensland Investment Corporation	8,922,294	5.60%
5	National Nominees Limited	6,744,952	4.23%
6	J P Morgan Nominees Australia Limited	5,278,211	3.31%
7	ANZ Nominees Limited	4,390,694	2.75%
8	Omega Spv I Lp	3,189,035	2.00%
9	Asia Union Investments Pty Limited	3,000,000	1.88%
10	Irrewarra Investments Pty Limited	2,039,000	1.28%
11	B & K Finnin Pty Limited	2,025,106	1.27%
12	UBS Nominees Pty Limited	1,951,356	1.22%
13	IWPE Nominees Pty Limited	1,860,000	1.17%
14	Cimb-Gk Securities Pte Limited	1,714,286	1.08%
15	Investment Holdings Pty Limited	1,650,000	1.04%
16	UBS Wealth Management Australia Nominees Pty Limited	1,645,497	1.03%
17	Durbin Superannuation Pty Limited	1,443,033	0.91%
18	Sandhurst Trustees Limited	1,300,659	0.82%
19	Frijlink Pty Limited	1,160,000	0.73%
20	Mrs Helen Margaret Jones	1,159,800	0.73%
		91,055,149	57.13%

Market Listing

Acrux Limited is quoted on the Australian Stock 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 2008:

Quarter ended 30 September 2007	\$1.38
Quarter ended 31 December 2007	\$1.39
Quarter ended 31 March 2008	96 cents
Quarter ended 30 June 2008	\$1.22

The closing share price on 22 September 2008 was \$1.00.

SHAREHOLDER INFORMATION

AS AT 22 SEPTEMBER 2008

Voting Rights, Dividends and Share Transfers

Every holder of shares present in person or by proxy, attorney or representative at a meeting of shareholders has one vote on a vote taken by a show of hands, and, on a poll every holder of shares who is present in person or by proxy, attorney or representative has one vote for every fully paid share held by him or her, and a proportionate vote for every partly paid share, registered in such shareholder's name on Company's share register.

A poll may be demanded by the chairperson of the meeting, by any 5 shareholders present in person or by proxy, attorney or representative, or by any one or more shareholders who are together entitled to not less than 5% of the total voting rights of, or paid up value of, the shares of all those shareholders having the right to vote at that meeting.

A shareholder may transfer shares by a market transfer in accordance with any computerised or electronic system established or recognised by the ASX or the Corporations Act for the purpose of facilitating transfers in shares or by an instrument in writing in a form approved by the ASX or in any other usual form or in any form approved by the board.

The board may refuse to register any transfer of shares, other than a proper SCH transfer, where permitted by the Listing Rules of the ASX. The Company must not refuse or fail to register or give effect to or delay or in any way interfere with a proper SCH transfer of shares or other securities.

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.

The Company 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.

DIRECTORY

Acrux Limited and subsidiary companies

103-113 Stanley Street West Melbourne Victoria 3003, Australia

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Facsimile + 61 3 8379 0101
Web www.acrux.com.au
Australian Stock Exchange code "ACR"

Information about the Company, including media releases, disclosures to the Australian Stock Exchange, quarterly shareholder updates and corporate governance policies, 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

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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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