ACRUX FINANCIAL REPORT FOR HALF-YEAR TO DECEMBER 2005

Melbourne, 16 February 2006: Acrux Limited (ASX: ACR) today filed its Financial Report for the half-year ended 31 December 2005. Highlights were:

- Net cash reserves $24.7 million (June 2005: $28.1 million)
- Loss before share options amortisation $3.7 million, unchanged from half-year to December 2004.
- Net loss after share options amortisation $4.1 million (Dec 2004: $4.3 million)

Key events since 30 June 2005:

- Licence agreement signed with Population Council, enabling Acrux to progress toward commercialisation of unique contraceptive spray, containing the new-generation contraceptive drug Nestorone®
- Completion by Acrux's US partner VIVUS of enrolment of patients into Phase 3 trial with Evamist™; VIVUS on track to file US marketing application with FDA in mid-2006
- End of Phase 2 meeting held between VIVUS, Acrux and FDA on Testosterone MDTS® to treat decreased libido in women; VIVUS subsequently submitted proposal for Phase 3 trials to FDA for approval
- Successful completion of 2 clinical studies with Testosterone MD-Lotion™ to treat male testosterone deficiency; initiation of first of three remaining pharmacokinetic trials required for US marketing application
- 5 new patents granted in the USA, further extending the proprietary nature of Acrux's transdermal drug delivery technology
- 12% stake in Acrux acquired by Orbis Mutual Funds

Milestones to watch out for:

- H1 2006 - European patent office decision on grant of key patent
- Q2 2006 - Evamist™ US Phase 3 trial results
- H1 2006 - FDA decision on US Phase 3 trials design for Testosterone MDTS®
- Mid-2006 - US marketing application by VIVUS for Evamist™
- H2 2006 - Initiation by VIVUS of US Phase 3 trials with Testosterone MDTS® (pending FDA decision on trial design)
- H2 2006 - Initiation of Phase 2 trials with contraceptive spray
- H2 2006 - Initiation of second of three remaining trials with Testosterone MD-Lotion™

Summary of financial results

6 months ended 31 December	2005	2004[1]
Licensing and R&D revenues	-	0.9
Grant income	0.2	0.4
Interest and other income	0.7	0.5
Total revenue	**0.9**	**1.8**
Total operating expenditure	**(4.6)**	**(5.5)**
Loss before share options amortisation	**(3.7)**	**(3.7)**
Share options amortisation expense	(0.4)	(0.6)
Net loss	**(4.1)**	**(4.3)**
Net cash outflow before new capital	**(3.8)**	**(3.7)**
New share capital net proceeds	0.5	27.8
Net cash (outflow)/inflow	**(3.3)**	**24.1**
Net cash	**24.7**	**30.7**

[1] Restated under AIFRS to include share options amortisation expense

For full financial results, please refer to attached Financial Report for the half year ended 31 December 2005.

Contact:

Jon Pilcher, Chief Financial Officer
Tel: +61 3 8379 0100
jon.pilcher@acrux.com.au

About Acrux www.acrux.com.au

- Acrux is a specialty pharmaceutical company, developing and commercialising a range of patented, patient-preferred healthcare products for global markets, using its innovative technology to administer drugs through the skin.
- Acrux's product pipeline includes treatments of hormonal deficiencies, pain, central nervous system disorders and a contraceptive. 20 human clinical trials have been completed with 8 different drugs and the lead product, Evamist™, is nearing the end of a phase 3 trial in the USA.
- Acrux has licensed USA rights for Evamist™ (Estradiol MDTS®) and Testosterone MDTS® to VIVUS and AUS/NZ distribution rights for Testosterone MDTS® and Fentanyl UDTS™ to CSL Limited. Acrux has also licensed its technology to Eli Lilly for veterinary healthcare products.

ACRUX LIMITED
ABN 72 082 001 152
AND CONTROLLED ENTITIES

HALF-YEAR INFORMATION
FOR THE SIX MONTHS ENDED 31 DECEMBER 2005
PROVIDED TO THE ASX UNDER LISTING RULE 4.2A

This half-year financial report is to be read in conjunction with the financial report for the year ended 30 June 2005.

Rule 4.2A.3

Appendix 4D

Half Year Report for the six months to 31 December 2005

Name of entity

Acrux Limited

ABN or equivalent company reference:	72 082 001 152

1. Reporting period

Report for the half year ended	31 December 2005
Previous corresponding period is the financial year ended and half year ended	30 June 2005 31 December 2004

2. Results for announcement to the market

				$'000
Revenues from ordinary activities *(item 2.1)*	down	49%	to	927
Loss from ordinary activities after tax attributable to members (*item 2.2*)	down	5%	to	(4,088)
Net loss for the period attributable to members *(item 2.3)*	down	5%	to	(4,088)

Dividends *(item 2.4)*	Amount per security	Franked amount per security
Interim dividend	0¢	0¢
Final dividend	0¢	0¢
Previous corresponding period	0¢	0¢
Record date for determining entitlements to the dividend *(item 2.5)*	N/A	

Brief explanation of any of the figures reported above necessary to enable the figures to be understood *(item 2.6)*:

Revenue

Revenue decreased by 49% to $0.9 million compared with the half year ended 31 December 2004. Results to December 2004 included US$625,000 milestone income from VIVUS Inc. under the Development and Commercialisation Agreement for Testosterone MDTS® in the United States. This income is dependent on the timing of milestones detailed within the Commercialisation Agreement.

Loss from ordinary activities

Expenditure decreased by 18% to $5.0 million, with external research and development expenditure decreasing to $1.3 million from $2.7 million. Expenditure of $1.3 million relating to a large Phase 2 clinical trial with Testosterone MDTS® had a major impact on results to December 2004.

3. Net tangible assets per security *(item 3)*

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	0.19¢	0.26¢

4. The financial information provided in the Appendix 4D is based on the half year condensed financial report (attached), which has been prepared in accordance with Australian accounting standards.

5. Independent review of the financial report *(item 9)*

The financial report has been independently reviewed. The financial report is not subject to a qualified independent review statement.

ACRUX LIMITED
ABN 72 082 001 152
AND CONTROLLED ENTITIES

FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2005

This half-year financial report is to be read in conjunction with the financial report for the year ended 30 June 2005.

ACRUX LIMITED
ABN 725 082 001 152
AND CONTROLLED ENTITIES

FINANCIAL REPORT FOR THE HALF-YEAR ENDED
31 DECEMBER 2005

TABLE OF CONTENTS

ACRUX LIMITED
ABN 72 082 001 152
AND CONTROLLED ENTITIES

DIRECTORS' REPORT

The directors present their report together with the condensed financial report of the consolidated entity consisting of Acrux Limited and the entities it controlled, for the half-year ended 31 December 2005 and independent review report thereon. This financial report has been prepared in accordance with Australian Equivalents of International Financial Reporting Standards.

Directors Names

The names of the directors in office at any time during or since the end of the half-year are:

Name	Period of directorship
R Dobinson (Chairperson)	Director since 1998
I Gonda (Managing Director and Chief Executive Officer)	Director since 2002
H K Windle (Deputy Chairperson)	Director since 2001
N D'Aquino	Director since 2003
B C Finnin	Director since 1999
J L Foght	Director since 2001
P Gillooly	Director since 2004

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

Review of Operations

The consolidated loss of the group for the half-year, after providing for income tax and eliminating outside equity interests, amounted to $4.1 million, compared with $4.3 million in the half-year to 31 December 2004, restated on adoption of AIFRS.

Revenues and operating expenditure were $0.9 million and $5.0 million compared with $1.8 million and $6.1 million in the half-year to 31 December 2004. Revenue in the half-year to 31 December 2004 included $0.9 million in milestone payments under the licence of Testosterone MDTS® rights in the USA to VIVUS Inc. No milestone payments were triggered during the current half-year. In the half-year to 31 December 2004, significant expenditure was incurred on a 260-patient Phase 2 clinical trial for Testosterone MDTS®. The activities and associated expenditure on that trial were largely completed before the half-year to 31 December 2005, resulting in a significant reduction in expenditure on external research and development.

In accordance with AIFRS, the estimated cost of share options amortised over their vesting period has been recognised for the first time in the income statement. This has resulted in an expense of $0.4 million in the current half-year and $0.6 million for the restated half-year to 31 December 2004. There were no other adjustments resulting from adoption of AIFRS.

Net cash outflow before new capital was $3.8 million, with $0.5 million cash inflow from the exercise of share options during the half-year. Net cash at 31 December 2005 was $24.7 million, compared with $30.7 million at 31 December 2004.

ACRUX LIMITED
ABN 72 082 001 152
AND CONTROLLED ENTITIES

DIRECTORS' REPORT

In February 2006, Acrux and the New York-based Population Council signed a licence agreement enabling Acrux to progress toward commercialisation of the contraceptive spray Nestorone® MDTS®, containing the new-generation contraceptive drug Nestorone®. Under the agreement, Acrux licensed from the Population Council, on a worldwide basis, intellectual property covering the use of Nestorone® delivered using Acrux's patented metered-dose skin spray technology. Acrux is responsible for development and commercialisation and has the right to sub-license to commercial partners.

In September 2005 and November 2005, five new patents covering Acrux's drug delivery technology were granted in the USA, increasing the number of granted patents in the USA to seven.

In October 2005, 16 million shares (12% of the Company's shares) were acquired by the Bermuda-based Orbis Mutual Funds. These shares were purchased from three shareholders following the expiry of a voluntary escrow arrangement for 12 months after the Company's listing on the Australian Stock Exchange. The voluntary escrow applied to 25.6 million shares, held by eleven shareholders.

Also in October 2005, Acrux's US partner VIVUS reported the completion of enrolment of patients in the Phase 3 trial in the USA of Evamist™ to treat menopausal symptoms. VIVUS has indicated that it remains on track to file a marketing application with the US Food and Drug Administration (FDA) in mid-2006.

In September 2005, the successful completion of two clinical trials was reported with Testosterone MD-Lotion® to treat testosterone deficiency in men. The first of three remaining trials required for a marketing application in the USA has been initiated. The second trial is to begin in the second half of the 2006 calendar year.

Also in September 2005, Acrux and VIVUS held an "end of Phase 2" meeting with the FDA to discuss the remaining development to achieve US registration of Testosterone MDTS® to treat decreased libido in women. VIVUS have subsequently submitted a proposal for Phase 3 studies to the FDA for approval. We expect the FDA's decision in the first half of the 2006 calendar year.

Auditor's Declaration
A copy of the auditor's declaration in relation to the review for the half-year is provided with this report.

Rounding of amounts to nearest thousand dollars
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:

H K Windle
Director

Dated this 15th day of February, 2006

AUDITOR'S INDEPENDENCE DECLARATION
To the Directors of Acrux Limited

In relation to the half-year independent review for the six months to 31 December 2005, 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

Dated this 15th day of February, 2006	Pitcher Partners
Melbourne	STEPHEN SCHONBERG

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Half-Year	
	2005	**2004**
	$'000	**$'000**
Revenue from Ordinary Activities	927	1,811
Employee benefits expense	(1,525)	(1,556)
Non-executive directors' fees	(206)	(126)
Share options expense	(407)	(571)
Depreciation and amortisation expenses	(242)	(197)
Occupancy and lease expenses	(137)	(144)
External research and development expenses	(1,278)	(2,657)
Advertising and marketing expenses	(285)	(42)
Travel and accomodation expenses	(270)	(177)
Foreign exchange losses	-	(68)
Professional and legal fees	(241)	(185)
Insurance expenses	(101)	(88)
Other expenses	(321)	(326)
	(5,013)	(6,137)
Loss before income tax	**(4,086)**	**(4,326)**
Income tax	-	-
Loss for the half-year	**(4,086)**	**(4,326)**
Profit/(Loss) attributable to minority interests	2	(13)
Loss attributable to the members of the parent	**(4,088)**	**(4,313)**
Basic and Diluted earnings per share	(0.03)	(0.03)

The accompanying notes form part of these financial statements.

ACRUX LIMITED
ABN 72 082 001 152
AND CONTROLLED ENTITIES

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

	31 Dec 2005 $'000	30 June 2005 $'000
CURRENT ASSETS		
Cash and cash equivalents	24,737	28,068
Trade and other receivables	418	302
Other current Assets	104	189
TOTAL CURRENT ASSETS	25,259	28,559
NON-CURRENT ASSETS		
Deferred tax assets	236	236
Plant and equipment	1,160	1,157
Intangible assets	1,100	1,142
TOTAL NON-CURRENT ASSETS	2,496	2,535
TOTAL ASSETS	27,755	31,094
CURRENT LIABILITIES		
Trade and other payables	1,264	1,374
Short-term provisions	202	207
TOTAL CURRENT LIABILITIES	1,466	1,581
NON-CURRENT LIABILITIES		
Long-term provisions	29	31
TOTAL NON-CURRENT LIABILITIES	29	31
TOTAL LIABILITIES	1,495	1,612
NET ASSETS	**26,260**	**29,482**
EQUITY		
Share capital	53,340	52,883
Other reserves	1,918	1,511
Accumulated losses	(29,000)	(24,912)
Parent entity interest	26,258	29,482
Minority interest	2	-
TOTAL EQUITY	**26,260**	**29,482**

The accompanying notes form part of these financial statements.

ACRUX LTD
ABN 72 082 001 152
AND CONTROLLED ENTITIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Half-year	
	2005	**2004**
	$'000	**$'000**
Total Equity at the beginning of the half-year	**29,482**	**8,409**
Employee share options	407	571
Net income directly recognised in equity	**407**	**571**
Loss for the half-year	(4,086)	(4,326)
Total recognised income and expense for the period	**(3,679)**	**(3,755)**
Attributable to:		
Members of the parent	(3,681)	(3,742)
Minority interest	2	(10)
	(3,679)	**(3,752)**
Transactions with equity holders in their capacity as equity holders:		
Contributions	457	26,988
Total Equity at the end of the half-year	**26,260**	**31,645**

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Half-year	
	2005	2004
	$'000	$'000
CASH FLOW FROM OPERATING ACTIVITIES		
Other receipts	166	817
Operating grant receipts	248	158
Payments to suppliers and employees	(4,821)	(4,802)
Interest received	681	503
Withholding Tax Paid	-	(155)
Net cash used in operating activities	**(3,726)**	**(3,479)**
CASH FLOW FROM INVESTING ACTIVITIES		
Payment for intangible assets	-	(26)
Payment for plant and equipment	(62)	(132)
Net cash used in investing activities	**(62)**	**(158)**
CASH FLOW FROM FINANCING ACTIVITIES		
Net proceeds from share issue	457	27,759
Net cash provided by financing activities	**457**	**27,759**
Net increase/(decrease) in cash and cash equivalents	(3,331)	24,122
Cash and cash equivalents at beginning of half-year	28,068	6,564
Cash and cash equivalents at end of the half-year	**24,737**	**30,686**

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 1: BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

This general purpose half-year financial report has been prepared in accordance with Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001.

This half-year financial report does not include all the notes of the type usually included in an annual financial report. It is recommended that this financial report be read in conjunction with the financial report for the year ended 30 June 2005 and any public announcements made by Acrux Limited during the half-year in accordance with any continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of preparation of the half-year financial report

This is the first financial report of Acrux Limited prepared in accordance with Australian Equivalents of International Financial Reporting Standards (AIFRS). The financial reports of Acrux Limited were prepared in accordance with the previous Australian Generally Accepted Accounting Principles (AGAAP) until 30 June 2005. There are certain differences between accounting policies under AIFRS and AGAAP and where applicable the comparative figures have been restated to reflect these adjustments. A summary of the significant accounting policies under AIFRS is provided below. Reconciliations of equity and operating loss between AGAAP and AIFRS are provided under notes 7 to 9.

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

Summary of the significant accounting policies under AIFRS:

(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 from time to time during the year and at balance date.

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.

(c) Revenue Recognition

Government grants received that relate to specific assets or expenses are deferred and recognised as income in the same period as the asset is consumed or when the associated expenses are incurred.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

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

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 and deposits held at call with financial institutions.

(e) Plant and equipment

Cost and valuation
All classes of plant and equipment are measured at cost.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. Refer to note 1(h).

Depreciation
The depreciable amounts of all fixed assets are depreciated on a straight-line basis over their estimated useful lives 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:

	2005	2004
Plant and equipment:	2.5 to 14 years	2.5 to 14 years
Leasehold improvements:	8 years	8 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.

(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.

Research and Development
Expenditure on research activities is recognised as an expense when incurred. Other development expenditure is recognised as an expense when incurred.

Expenditure on development activities is capitalised only when it is expected beyond reasonable doubt that future benefits will exceed the deferred costs. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using a straight-line method to allocate the cost over a period (not exceeding three years), during which the related benefits are expected to be realised, once commercial production is commenced.

(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

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.

Share-based payments
The group operates an employee share option plan. The bonus element over the exercise price for the grant of options is recognised as an expense in the Income Statement in the period(s) when the benefit is earned.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date. Under the transitional arrangements for first-time adoption of AIFRS, no expense has been recognised for options granted before 7 November 2002 and/or vested before 1 January 2005. For options granted after 7 November 2002 and vesting after 1 January 2005 the fair value of options at grant date is determined using a Binomialoption pricing model, and is recognised as an employee expense over the period during which the employees become entitled to the option.

(k) Foreign Currencies

Transactions and Balances

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 reporting period.

Resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial period.

(l) Comparatives

In accordance with the first-time adoption of AIFRS, comparative information has been reclassified where appropriate through retrospective application of AIFRS to the previous year results so as to achieve consistency with current year disclosures.

(m) 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.

NOTE 2: SUBSEQUENT EVENTS

Material events subsequent to the end of the half-year that have not been recognised in the half-year financial statements:

On 13 February 2006 FemPharm Pty Ltd, a wholly owned subsidiary of Acrux Limited, and New York-based Population Council Inc. signed a licence agreement, under which Fempharm licensed from the Population Council, on a worldwide basis, intellectual property covering the use of the new-generation contraceptive drug Nestorone® delivered using Acrux's patented metered-dose skin spray technology. Acrux is responsible for development and commercialisation of Nestorone® MDTS® and has the right to sub-license to commercial partners. The agreement is conditional upon completion of due diligence enquiries by FemPharm within sixty days. FemPharm will pay to the Population Council a licence fee of US$100,000 plus milestone payments of US$100,000 for each of three milestones in the phase 3 clinical trial/regulatory process being achieved for each indication for which the product may be marketed, plus 5% of FemPharm's sales of Nestorone® MDTS® and 20% of FemPharm's revenues from sub-licensing Nestorone® MDTS®.

On 18 January 2006 the board resolved to establish a new subsidiary company of Acrux Limited. The company will initially handle the Testosterone MDTS® project as it enters Phase 2 and Phase 3 clinical development.

NOTE 3: SEGMENT INFORMATION

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

(a) Business segments

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

(b) Geographical segments

The consolidated entity operates predominately in two geographical segments being Australia and the United States of America. All assets and liabilities disclosed in the financial statements relate to the Australian segment. Income derived for the half-year from the United States segment was $Nil (2004: $876,593). Revenues received from the United States relate to licence 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 the United States. It is not practicable to allocate expenses between segments.

NOTE 4: ISSURANCES, REPURCHASES, AND REPAYMENTS OF DEBT AND EQUITY SECURITIES

During the reporting period 2,740,000 shares were issued on exercise of options granted under the employee share option scheme.

NOTE 5: CONTINGENT LIABILITIES

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 Ltd, Acrux Limited has in place a guarantee and indemnity to the value of $130,000. This is supported by letters of set-off over amounts on deposit to the value of $130,000. This guarantee is pledged as security for the liabilities of Acrux DDS Pty Ltd.

In accordance with the banking agreement with National Australia Bank Ltd, Acrux DDS Pty Ltd (a wholly owned subsidiary of Acrux Limited) has in place a guarantee and indemnity to the value of $261,871. This is supported by letters of set-off over amounts on deposit to the value of $261,871. This guarantee is pledged as security for the liabilities of the entity.

There have been no changes in contingent liabilities since 30 June 2005.

NOTE 6: CAPITAL COMMITMENTS

Acrux DDS Pty Ltd, a wholly owned subsidiary of Acrux Limited, has committed $198,240 to construct a clinical trial supplies manufacturing suite within the company's laboratory. This amount will be paid before the end of the 2005/06 financial year.

NOTE 7: FIRST-ADOPTION OF AIFRS - RECONCILIATION OF EQUITY REPORTED UNDER AGAAP TO EQUITY UNDER AIFRS

(a) At the date of transition to AIFRS - 1 July 2004

	AGAAP	Adjustment	AIFRS
	$'000	$'000	$'000
CURRENT ASSETS			
Cash and cash equivalents	6,564	-	6,564
Trade and other receivables	67	-	67
Other current assets	879	-	879
Total current assets	7,510	-	7,510
NON-CURRENT ASSETS			
Plant and equipment	1,039	-	1,039
Intangible assets	1,209	-	1,209
Total non-current assets	2,248	-	2,248
TOTAL ASSETS	9,758	-	9,758
CURRENT LIABILITIES			
Trade and other payables	1,165	-	1,165
Short-term provisions	162	-	162
TOTAL CURRENT LIABILITIES	1,327	-	1,327
NON-CURRENT LIABILITIES			
Long-term provisions	22	-	22
TOTAL NON-CURRENT LIABILITIES	22	-	22
TOTAL LIABILITIES	1,349	-	1,349
NET ASSETS	**8,409**	-	**8,409**
EQUITY			
Share capital	25,766	-	25,766
Other reserves	-	202	202
Accumulated losses	(17,381)	(202)	(17,583)
Parent interest	8,385	-	8,385
Minority interest	24	-	24
TOTAL EQUITY	**8,409**	-	**8,409**

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

(b) At the end of the last half-year reporting period under AGAAP - 31 December 2004

	AGAAP	Adjustment	AIFRS
	$'000	$'000	$'000
CURRENT ASSETS			
Cash and cash equivalents	30,686	-	30,686
Trade and other receivables	367	-	367
Other current assets	231	-	231
Total current assets	31,284	-	31,284
NON- CURRENT ASSETS			
Plant and equipment	1,012	-	1,012
Intangible assets	1,183	-	1,183
Total non-current assets	2,195	-	2,195
TOTAL ASSETS	33,479	-	33,479
CURRENT LIABILITIES			
Trade and other payables	1,615	-	1,615
Short-term provisions	193	-	193
TOTAL CURRENT LIABILITIES	1,808	-	1,808
NON- CURRENT LIABILITIES			
Long-term provisions	26	-	26
TOTAL NON- CURRENT LIABILITIES	26	-	26
TOTAL LIABILITIES	1,834	-	1,834
NET ASSETS	**31,645**	-	**31,645**
EQUITY			
Share capital	52,754	-	52,754
Other reserves	-	773	773
Accumulated losses	(21,119)	(773)	(21,892)
Parent interest	31,635	-	31,635
Minority interest	10	-	10
TOTAL EQUITY	**31,645**	-	**31,645**

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

(c) At the end of the last annual reporting period under AGAAP - 30 June 2005

	AGAAP	Adjustment	AIFRS
	$'000	**$'000**	**$'000**
CURRENT ASSETS			
Cash and cash equivalents	28,068	-	28,068
Trade and other receivables	302	-	302
Other current assets	189	-	189
Total current assets	28,559	-	28,559
NON-CURRENT ASSETS			
Deferred tax assets	236	-	236
Plant and equipment	1,157	-	1,157
Intangible assets	1,142	-	1,142
Total non-current assets	2,535	-	2,535
TOTAL ASSETS	31,094	-	31,094
CURRENT LIABILITIES			
Trade and other payables	1,374	-	1,374
Short-term provisions	207	-	207
TOTAL CURRENT LIABILITIES	1,581	-	1,581
NON-CURRENT LIABILITIES			
Long-term provisions	31	-	31
TOTAL NON-CURRENT LIABILITIES	31	-	31
TOTAL LIABILITIES	1,612	-	1,612
NET ASSETS	**29,482**	-	**29,482**
EQUITY			
Share capital	52,883	-	52,883
Other reserves	-	1,511	1,511
Accumulated losses	(23,401)	(1,511)	(24,912)
Parent interest	29,482	-	29,482
Minority interest	-	-	-
TOTAL EQUITY	**29,482**	-	**29,482**

NOTE 8: FIRST-ADOPTION OF AIFRS - RECONCILIATION OF PROFIT REPORTED UNDER AGAAP TO PROFIT UNDER AIFRS

(a) Reconciliation of profit for the half-year ended 31 December 2004

	AGAAP	Adjustment	AIFRS
	$'000	**$'000**	**$'000**
Revenue from Ordinary Activities	1,811	-	1,811
Employee benefits expense	(1,556)	-	(1,556)
Non-executive directors' fees	(126)	-	(126)
Share options expense	-	(571)	(571)
Depreciation and amortisation expenses	(197)	-	(197)
Occupancy and lease expenses	(144)	-	(144)
External research and development expenses	(2,657)	-	(2,657)
Advertising and marketing expenses	(42)	-	(42)
Travel and accomodation expenses	(177)	-	(177)
Foreign exchange losses	(68)	-	(68)
Professional and legal fees	(185)	-	(185)
Insurance expenses	(88)	-	(88)
Other expenses	(326)	-	(326)
	(5,566)	(571)	(6,137)
Loss before income tax	(3,755)	(571)	(4,326)
Income tax	-	-	-
Loss for the half-year	**(3,755)**	**(571)**	**(4,326)**
Loss attributable to minority interests	(13)	-	(13)
Loss attributable to the members of the parent	(3,742)	(571)	(4,313)

(b) Reconciliation of profit for the year ended 30 June 2005

	AGAAP	Adjustment	AIFRS
	$'000	$'000	$'000
Revenue from Ordinary Activities	4,797	-	4,797
Employee benefits expense	(3,338)	-	(3,338)
Non-executive directors' fees	(345)	-	(345)
Share options expense	-	(1,309)	(1,309)
Depreciation and amortisation expenses	(421)	-	(421)
Occupancy and lease expenses	(300)	-	(300)
External research and development expenses	(4,244)	-	(4,244)
Advertising and marketing expenses	(280)	-	(280)
Travel and accomodation expenses	(380)	-	(380)
Foreign exchange losses	(30)	-	(30)
Professional and legal fees	(737)	-	(737)
Insurance expenses	(128)	-	(128)
Other expenses	(638)	-	(638)
	(10,841)	(1,309)	(12,150)
Loss before income tax	(6,044)	(1,309)	(7,353)
Income tax	-	-	-
Loss for the half-year	**(6,044)**	**(1,309)**	**(7,353)**
Loss attributable to minority interests	(24)	-	(24)
Loss attributable to the members of the parent	(6,020)	(1,309)	(7,329)

NOTE 9: FIRST-ADOPTION OF AIFRS - RECONCILIATION OF CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2005 AS REPORTED UNDER AGAAP TO CASH FLOWS UNDER AIFRS

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

NOTE 10: FIRST-ADOPTION OF AIFRS – EXPLANATION OF CHANGES IN ACCOUNTING POLICY ARISING ON FIRST-TIME ADOPTION OF AIFRS

(a) Share based payments

Under AASB 2 Share based Payments, the company is required to determine the fair value of equity settled transactions and recognise an expense in the Income Statement.

On first-time adoption of AIFRS retained earnings at 1 July 2004 and reported results for the half-year to 31 December 2004 have been adjusted for all share-based payments granted after 7 November 2002, which did not vest prior to 1 January 2005.

(b) Impairment of assets

Under AIFRS the recoverable amount test under the previous AGAAP is replaced by impairment testing whereby the recoverable amount is determined as the higher of fair value less costs to sell and value in use. Value in use incorporates the use of discounted cash flows.

The entity did not recognise any writedowns for impairment of non current assets on first time adoption of AIFRS.

(c) Research and Development

AASB 138 'Intangibles' defines development as the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use. Acrux has historically expensed all development expenditure, however under AIFRS, costs arising in a development phase of a project must be capitalised as intangible assets if certain criteria are fulfilled.

(d) Income taxes

Under AIFRS a balance sheet approach has been adopted under which temporary differences are identified for each asset and liability rather than accounting for the effect of timing and permanent differences between taxable and accounting profit. A future income tax benefit is recognised for tax losses where their realisation is considered probable.

On adoption of AIFRS, the entity did not recognise any changes to the treatment of income tax

ACRUX LIMITED

DIRECTORS DECLARATION

The directors declare that the financial statements and notes set out on pages 6 to 20 in accordance with the *Corporations Act 2001*:

(a) Comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*, and

(b) Give a true and fair view of the financial position of the consolidated entity as at 31 December 2005 and of its performance as represented by the results of its operations and its cash flows, for the half-year ended on that date.

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

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

H K Windle
Director

Dated this 15th day of February, 2006
Melbourne

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INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF ACRUX LIMITED

Scope

We have reviewed the condensed consolidated financial report of Acrux Limited for the half-year ended 31 December 2005 as set out on pages 6 to 21. The directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the entity to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Acrux Limited is not in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and

  (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and

(b) other mandatory professional reporting requirements in Australia.

Pitcher Partners

Dated this 15th day of February, 2006
Melbourne

Pitcher Partners
STEPHEN SCHONBERG