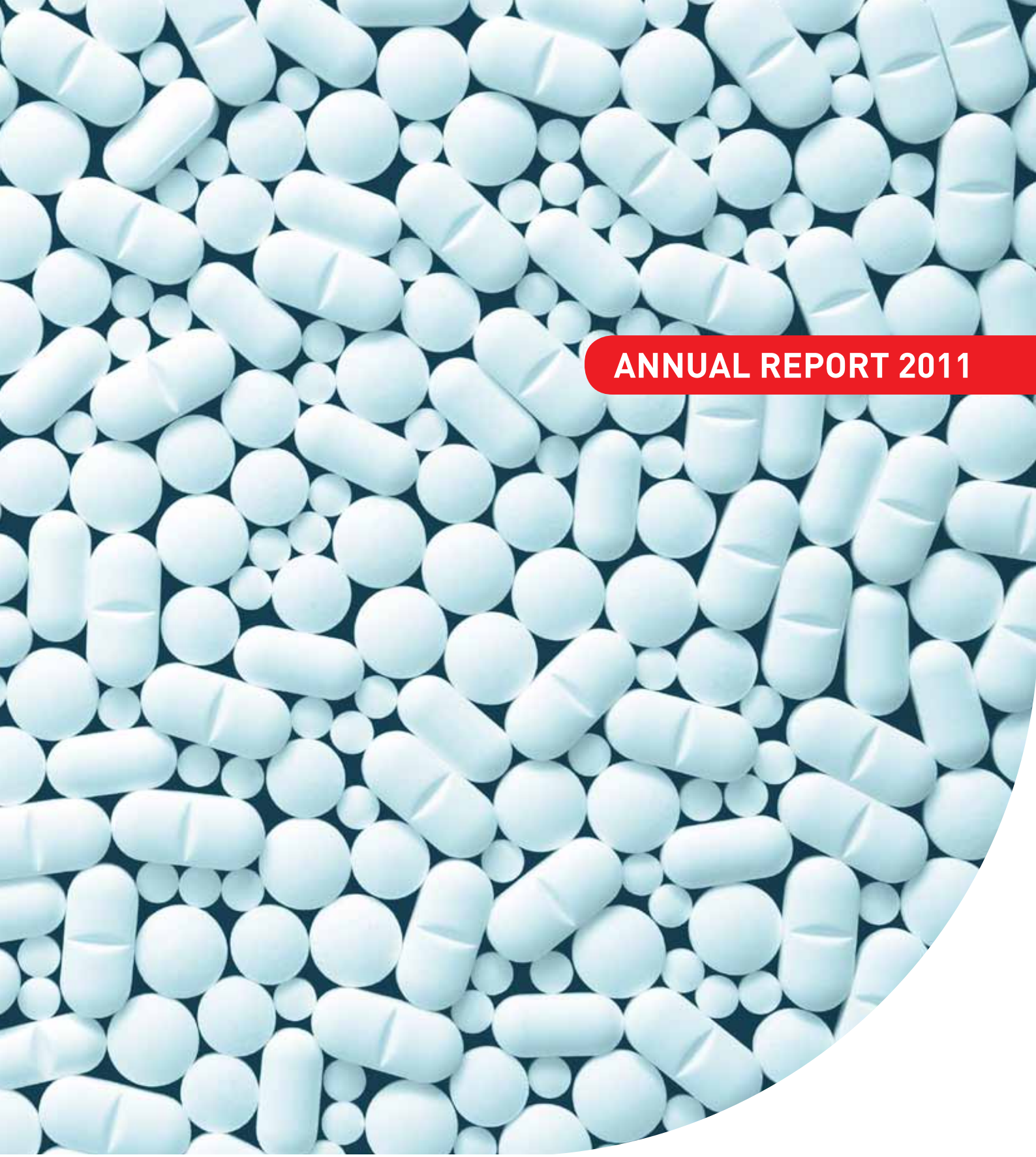

ANNUAL REPORT 2011

maynepharma

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Business Overview

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Mayne Pharma at a Glance

Mayne Pharma Group Limited (Mayne Pharma) is an Australian specialist pharmaceutical company with an intellectual property portfolio built around the optimisation and delivery of oral dosage form drugs.

Mayne Pharma has a long and successful history of developing and commercialising improved pharmaceuticals and has launched and marketed numerous products through partnerships with licensees in various countries around the world. Mayne Pharma focuses on delivering to patients improved versions of existing drugs (Improved Chemical Entities) in order to advance safety and efficacy.

Drug delivery systems

Mayne Pharma has three Core Proprietary Technology Platforms:

CONTROLLED RELEASE DELIVERY SYSTEMS	**SUSTAINED RELEASE**	Steady levels of drug concentrations over 12-24 hours following a single dose.
	MODIFIED RELEASE	Immediate release of a small portion of drug followed by the delayed release of the balance.
	PULSED RELEASE	Pulse release of drug over 12-24 hours following a single dose.
	DELAYED RELEASE	Targets the drug to a specific site in intestinal tract, particularly avoiding release in the stomach.
SUBA®	**IMPROVED BIOAVAILABILITY**	Particularly for poorly soluble drugs.
CLEANTASTE®	**TASTE MASKED**	Allows drugs to be more palatable and chewable or easier to swallow.

Proprietary Products

Astrix®

THERAPEUTIC CLASS:
Cardiovascular

DESCRIPTION:
Delayed-release, low-dose aspirin indicated for chronic use in the treatment of cardiovascular or cerebrovascular disease. Astrix® capsules are the only enteric-coated pelletised form of low-dose aspirin in the market. The pellets are specially designed to release in the intestine therefore minimising the possibility of gastric irritation. Astrix® is sold in Australia, Hong Kong, Korea, Mauritius, Singapore and Sri Lanka.

Doryx®

THERAPEUTIC CLASS:
Anti-infective

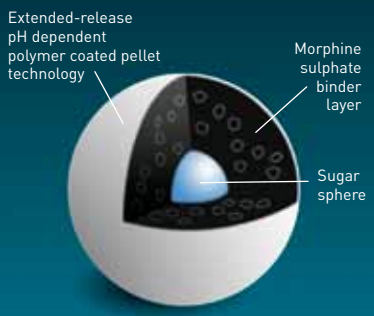
DESCRIPTION:
Delayed-release doxycycline is used for the treatment of severe acne, certain bacterial infections or as an anti-malarial. Doryx® capsules and tablets contain enteric-coated pellets of doxycycline hyclate designed to minimise nausea whilst still providing therapeutic blood levels of doxycycline. Doryx® is sold in Australia, Singapore and the US.

Eryc®

THERAPEUTIC CLASS:
Anti-infective

DESCRIPTION:
Delayed-release erythromycin used in the treatment of a wide variety of bacterial infections. Eryc® is currently sold in Australia, Canada, Norway, Sweden and the UK.

Kadian® / Kapanol®



THERAPEUTIC CLASS:
Analgesia

DESCRIPTION:
Sustained-release oral formulation of morphine used in the management of moderate to severe chronic pain. The product is sold under one of two brands - Kadian® in Canada and Japan or Kapanol® in Australia and various European countries.

Magnoplasm®

THERAPEUTIC CLASS:
First Aid

DESCRIPTION:
Magnoplasm® paste exerts a powerful osmotic action on living cells. It is indicated as an initial treatment for abscesses, boils, blind pimples and carbuncles. It is commonly known as a 'drawing ointment' and can also be used to remove splinters and other foreign bodies. It has been available in Australia for over 60 years.

SUBACAP®

THERAPEUTIC CLASS:
Anti-infective

DESCRIPTION:
Super-bioavailable itraconazole being developed to treat fungal infections. The improved absorption profile means that only about half the drug will be required by patients for the same therapeutic benefit as the originator product, Sporanox®, and will not need to be taken with food, providing more convenience for patients.

2011 Company Highlights

November 2010

CHANGE OF COMPANY NAME

The Company changed its name from Halcygen Pharmaceuticals Limited to Mayne Pharma Group Limited at the 2010 Annual General Meeting. The new name has provided an opportunity for the Company to leverage value from Mayne Pharma's successful history and established reputation in the pharmaceutical market in Australia and internationally.

November 2010

SUCCESSFUL PHASE II SUBACAP® TRIAL

The Company completed a Phase II study in the US that demonstrated SUBACAP® will offer a lower dose alternative to the conventional itraconazole capsule formulation, Sporanox®. The 175 patient clinical study examined the performance of SUBACAP® with localised fungal infection of the toenail (onychomycosis). For all three primary endpoints; therapeutic cure, clinical cure and mycological cure, SUBACAP® was shown to be non-inferior to the reference product Sporanox® and superior to placebo.

December 2010

FILED SUBACAP® FOR REGISTRATION IN THE EU

The Company submitted a Marketing Authorisation Application (MAA) in the European Union for SUBACAP®. The MAA was submitted via the Decentralised Procedure with the United Kingdom as the Reference Member State and France, Germany, Spain and Sweden as the Concerned Member States. The Company joins a select group of Australian companies to have filed a dossier for the registration of a new drug formulation in recent years.

June 2011

OPERATIONAL RESTRUCTURE ANNOUNCED

Following a review of its operations at the Salisbury production site, the Company announced a restructure with the aim of improving efficiencies across the business and increasing capacity utilisation. The review resulted in the identification of a number of redundant roles as well as other cost savings that will eliminate non-value added activity and refocus the business for the future. These changes are expected to deliver ongoing savings of approximately $2.9million annually and create a stronger and more profitable company.

Chairman's Letter

Roger Corbett AO / **Chairman**

Dear Fellow Shareholders,

It is a pleasure to present the Chairman's letter for the first time, having joined the Mayne Pharma Board in November last year and been appointed as Chairman soon after. My fellow Board members and I are major shareholders in the business and as such I can reassure you that we are all very committed to delivering improved results and growth in shareholder wealth.

When I joined the Board I was particularly excited by the prospects of applying Australian innovation to pharmaceuticals, which has of course underpinned the success of the business for many decades, giving rise to products such as Doryx®, Kadian®, Astrix® and of course, more recently SUBACAP® which has now filed for registration in Europe.

Underpinning our strategy is the development of proprietary pharmaceuticals, which can benefit from the protection offered by granted patents around the world. Unlike generics that can face fierce competition from low-cost producers in Asia, Mayne Pharma's strategy has been to offer products with proprietary improvements in safety and efficacy, thus allowing premium pricing and market exclusivity.

The essence of our strategy is highlighted by our proprietary product SUBACAP®, which we believe offers marked improvements over the conventional itraconazole capsule formulation (Sporanox®) used for the treatment of fungal infections. During the year, the Company completed a successful Phase II clinical study in the US that demonstrated SUBACAP® will offer a safe, lower dose alternative to the conventional itraconazole capsule formation.

The last 12 months have been both rewarding and challenging in your business. The Company has had to endure a very high Australian dollar and a contraction in orders for its key proprietary product Doryx® in the US. The fall in US Doryx® volumes were driven by the expected launch of a new Doryx® dosage form which is yet to receive approval from the US Food and Drug Administration (FDA). However, the Company made significant changes that will position the business for a positive future. A restructure of the business has been undertaken to drive efficiencies across the operations, new management have been appointed, debt levels significantly reduced and SUBACAP® is a step closer to commercialisation in Europe.

During the forthcoming year our key strategic goals are firstly to defend our granted US patent for Doryx® with our distribution and marketing partner Warner Chilcott and to seek out-of-court settlements with the remaining Paragraph IV applicants. During FY12, we should know whether our patent will withstand the test of time and continue to provide protection for this key brand until it expires in 2022. Secondly, we will continue with the process of achieving marketing approval for SUBACAP® in Europe and other selected markets and enter into a suitable licence arrangement for the marketing and distribution of this key product.

The Company will also build on its success in expanding the sales and marketing of its Australian proprietary product portfolio and progress its discussions with a number of potential parties to expand the distribution of these products globally. New partnership opportunities are being explored for Doryx®, Astrix®, Eryc® and Kadian®/Kapanol®. In addition, the Company will seek to build on its platform through in-licensing and acquisition of products that are either commercialised or nearing commercialisation and invest in developing and commercialising improved pharmaceuticals.

Following the decision to proceed with a Phase III trial in the US for SUBACAP® and given the continuing difficult economic climate, the Board has decided to preserve the Company's capital and no final dividend has been declared for the year ending 30 June 2011. The Board will closely monitor the dividend policy at each half after assessing the Company's operating performance and outlook at that time.

On behalf of the Board, I would like to thank all of our people for their hard work and dedication during the year. I would also like to thank all of our shareholders for their confidence and support. I look forward to the opportunities ahead for Mayne Pharma.

Roger Corbett, AO
Chairman

Chief Executive Officer's Review

Roger Aston / CEO

Mayne Pharma's strength lies in its proprietary products and technologies that have been developed over decades and the talented and energetic people who work together to build the future of this Company.

Financial Summary

While the 2011 financial year was tougher than expected, the Company reported revenue of $50.1 million, earnings before interest, tax, amortisation and depreciation (EBITDA) of $7.9 million and net profit after tax of $1.7 million. Underlying EBITDA was $9.2 million.

Although Doryx® sales in the US were down, the Company has expanded the sales of other products in the portfolio, which were up 18% on the full 12 month contribution in FY10. The growth in other product sales was driven by increased sales and marketing activity in our Australian proprietary products group and expanded marketing effort by our international pharmaceutical marketing partners.

Debt levels have been significantly reduced over the year and the US$10 million loan facility used to acquire Mayne Pharma International Pty Ltd (MPI) has been reduced to $1.25 million at the end of July and will be completely paid down by the end of October 2011 making the Company debt free. The Company paid its maiden 2.0 cent per share dividend in November 2010 and also paid a special 1.0 cent per share dividend in March 2011.

Doryx®

The Company's major proprietary product Doryx® is one of the most widely prescribed, branded doxycycline drugs for the treatment of severe acne in the US. Doryx® capsules were launched in 1985 and the Company has successfully reformulated Doryx® from capsules into tablets in 2005 and subsequently released a new Doryx® 150mg tablet in 2008.

During the year, Doryx® US sales were significantly impacted by currency which reduced earnings by approximately $3 million year on year, a contraction in pipeline inventories held in the US as stocks of the current product were run down in preparation for the launch of a new Doryx® dosage form and changes to the Doryx® customer loyalty program operated by our marketing and distribution partner reduced prescription volumes.

The outlook for Doryx® remains uncertain with the 30 month stay on Doryx® 150mg tablets expiring during September 2011. It is unclear as yet whether a generic company will launch at-risk on the Doryx® 150mg formulation. If this occurs, Mayne Pharma and Warner Chilcott will consider legal action for patent infringement against those companies. The Company continues vigorously to defend the Doryx® patent underpinning the marketing exclusivity for Doryx® in the US and to seek out-of-court settlements with the remaining Paragraph IV applicants.

SUBACAP®

The Company is currently responding to the EU Regulators' questions about the SUBACAP® dossier that was lodged during FY11 and remains on on track for launch in the EU during FY12 subject to regulatory approval and the appointment of a marketing and distribution partner.

Once approval in the EU has been granted, this dossier will be used to support the regulatory process in select Asian and South American countries. The Company will also be seeking a meeting with the Therapeutic Goods Administration in FY12 to discuss the regulatory process required for approval in Australia.

Following an End-of-Phase II meeting with the FDA held to discuss the trial results and review the completed pharmacokinetic studies, the Company is in the process of designing a Phase III pivotal clinical trial with the aim of replicating the results of the Phase II study in a larger cohort.

At the request of the FDA, the Company will be seeking a Pre-Phase III meeting with the FDA before the end of 2011. During the Pre-Phase III meeting the Company will seek confirmation on the design, clinical endpoints, scope and size of the Phase III program. The Company will be aiming to replicate the results of the Phase II clinical trial and to clearly differentiate SUBACAP® from the existing conventional itraconazole capsules. The Company anticipates completion of the study by the end of FY13, with NDA filing to then follow.

Changes to the Management Team

There were a number of changes to the structure and composition of the management team during the year:

- CFO Aaron Finlay and Executive Director and Chief Operating Officer Craig Bottomley both resigned after five years with the Company. We thank both Aaron and Craig for their contribution to the Company.
- Mark Cansdale joined the Company as Chief Financial Officer and Company Secretary in January this year. Mark joined the Company from McMillan Shakespeare and prior to that was with Vision Systems.
- Stuart Mudge, PhD joined the Company as Global Regulatory and Clinical Affairs Manager. Dr Mudge has more than 10 years of industry experience in regulatory affairs in the European, US and Australasian markets.
- Keith Smith returned to the Company and is now in the critical role of Commercial Director after operating a professional services business providing technical, business development and management services to biopharmaceutical enterprises.

In summary, I believe that the Company has enormous upside with the commercialisation of SUBACAP® in the forthcoming year and I remain positive in the Company's ability to defend its proprietary position and market share of Doryx® in the US.

Roger Aston
Chief Executive Officer

Financial Summary

Financial Summary

	2011	2010[2]	2009
	$m	$m	$m
Sales and profit			
Revenue	50.1	36.7	0.4
Gross profit	23.2	18.5	0.4
EBITDA	9.2[1]	8.5	(3.8)
EBITA	7.4[1]	7.2	(3.8)
NPAT	2.7[1]	3.3	(3.8)
Reported EBITDA	7.9	8.5	(3.8)
Reported NPAT	1.7	3.3	(3.8)
Balance sheet extract			
Cash	5.8	19.7	7.9
Inventory & receivables	12.8	12.5	-
PP&E	21.5	21.0	-
Intangibles	8.2	14.2	-
Total assets	53.7	71.2	8.0
Interest-bearing debt	2.3	8.6	-
Other financial liabilites	15.1	21.0	-
Total liabilities	29.5	45.6	0.3
Equity	24.2	25.5	7.7
Ratios			
EBITDA margin (%)	18.4[1]	23.1	n/m
EPS (cents)	1.1	2.6	n/m
Dividends per share (cents)	1.0	2.0	-
Debt/equity (%)	8.8	25.2	n/m

Notes to financial summary table:

1. After adjustments. Adjustments comprise $1.1m provision for the value of Doryx® inventory that is yet to be approved by the FDA, $0.8m non-cash reduction in earn-out liability and one-off redundancy costs of $1.0m for the restructure of the Salisbury production site to improve efficiencies and increase capacity utilisation.

2. Includes only 8 months contribution from MPI.

Revenue

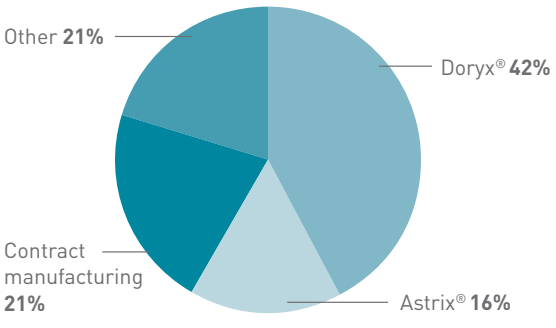
DORYX®

Sales of Doryx®, the key proprietary product representing $20.9 million or 42% of sales, were down 46% on the full 12 month FY10 result. This was driven by the continued and unprecedented strength of the Australian dollar and a contraction in pipeline inventories in the US as stocks of the current product were run down in preparation for the launch of a new Doryx® dosage form by the Company's US marketing and distribution partner, Warner Chilcott. Furthermore, US sales of Doryx® were also significantly affected as the distributor implemented changes to its Doryx® customer loyalty card program which has materially reduced prescription volumes to date in calendar year 2011.

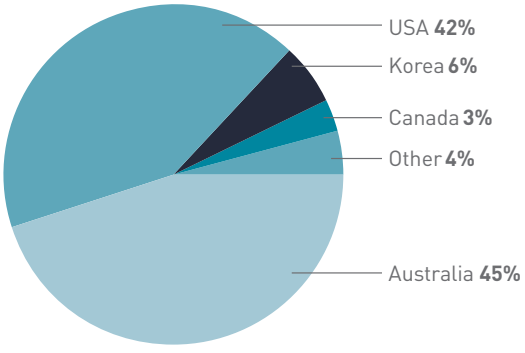
ASTRIX®

Astrix® remains the number one prescribed low-dose aspirin in Australia and contributed 16% of revenue in FY11 ($8.1 million). Global sales of Astrix® were up 27% on the full 12 month FY10 result following the implementation of new marketing programs that included the launch of a consumer website and the appointment of HealthOne to promote the brand in pharmacies. The Company also initiated marketing to GPs for the first time in many years. In Korea, Astrix® is the second largest low-dose aspirin product and sales continue to grow through our marketing partner, Boryung. New formulations of Astrix® are under development to expand the product offering to patients.

Sales Breakdown



Product sales



Regional sales

CONTRACT MANUFACTURING

Sales revenue from the contract manufacturing of liquids and creams, representing 21% of sales, was up 11% on the full 12 month FY10 period as a result of new grocery product lines being introduced by our customers.

This will be an area of renewed focus for the Company going forward. Additional resources will actively market Mayne Pharma's offering in this area to expand the contract manufacturing client base.

REGIONAL PERFORMANCE

Australian sales revenue which represents almost 45% of the Group's sales was up 16% on the full 12 month FY10 period driven by the proprietary products division (Astrix®, Doryx®, Eryc® and Magnoplasm®). This follows the acquisition of the marketing and distribution rights from Hospira in March 2010.

Canadian and Korean sales which represent 10% of the Group's sales were up 30% on the full 12 month FY10 period due to expanded marketing efforts by Boryung for Astrix® low-dose aspirin capsules in Korea, Pfizer for Eryc® antibiotic capsules in Canada and Abbott Inc. for the Kadian® sustained-release morphine product in Canada.

Gross Margin

Overall gross margin decreased compared to the previous corresponding period (51% down from 54%) due to the impact of foreign exchange and a change in product mix as sales of products other than Doryx® increased as a percentage of revenue.

Expenses

Marketing costs increased during the period from $0.1 million to $0.7 million reflecting the employment of additional resources internally and the commencement of marketing initiatives to key GP and pharmacy stakeholders with the aim of generating additional sales of Astrix®.

Additional resources were employed in the Regulatory Affairs team, and this combined with the continued progression of SUBACAP® through the registration processes in the US and EU added to the increased costs in this part of the business.

The increase in administrative expenses ($6.8 million up from $4.3 million) largely reflects the difference in the number of months reported in the previous corresponding period. In addition, a Business Development team was built up during the year which also contributed to the increase in administration costs. Additional tax and other consulting costs were incurred during the period in relation to the tax treatment of matters following the acquisition of MPI and a review of the MPI product costing system.

The increase in finance costs in FY11 reflects a full year of the notional interest charge on the unwind of the discount on the earn-out liability. Actual interest expense has reduced as the USD loan was repaid.

The June restructuring of the Salisbury production site, undertaken to improve efficiencies and increase capacity utilisation, gave rise to redundancy and restructuring costs of $1.0 million while a provision of $1.1 million was raised during the period for the write-down of the value of Doryx® inventory that is yet to be approved by the FDA.

Amortisation of intangible assets arising on the acquisition of MPI amounted to $6.1 million for the period compared to $5.3 million in the previous period. The intangible assets are amortised on a diminishing value basis that delivers higher amortisation charges in the earlier years of the assets' useful lives.

Earn-out Liability

The carrying value of the earn-out liability has decreased by $5.9 million to $15.0 million as a result of:

- the increase of $1.5 million recognised as a notional non-cash interest charge and included in finance costs;
- a change in the assumptions used in calculation of the earn-out which resulted in a non-cash reduction of $0.8 million. The key drivers of the impact were a re-assessment of the AUD/USD exchange rate and a change in the applicable revenue forecasts to be earned over the earn-out period; and
- a payment of $6.6 million to Hospira in February 2011, representing the instalment for the 2010 calendar year.

Tax

The consolidated tax group has unutilised tax losses of $2.8 million as at 30 June 2011 that have been recognised as a Deferred Tax Asset for the first time following a review of whether the Group met the Continuity of Ownership Test required under the Tax Act. Losses of approximately $0.4 million have been offset against the taxable income of the Group during the period.

Cash Flow

Net operating cash flow generated before tax payments was $7.0 million. Cash on hand at 30 June 2011 was $5.8 million, representing a decrease of $13.9 million from 30 June 2010. This movement was driven by several key items:

- $6.6 million in earn-out paid to Hospira for the acquisition of MPI;
- $5.1 million in loan repayments;
- $4.5 million of dividend payments;
- $2.9 million in tax payments; and
- $2.1 million in capital expenditure of which the largest component was for equipment related to the future commercialisation of SUBACAP® and other tablet manufacturing.

Doryx®

Mayne Pharma's major proprietary product Doryx®, is one of the most widely prescribed, branded doxycycline drugs used for the treatment of severe acne in the US. Doryx® is currently marketed in the US by Warner Chilcott and generated US$173 million in product sales for the year ended December 2010.

Doryx® Delayed-Release Tablets are a tetracycline-class oral antibiotic that contain specially coated pellets of doxycycline hyclate designed to delay the release of doxycycline hyclate until the pellets reach the small intestine, thereby minimising the gastrointestinal side effects most commonly associated with other doxycycline products.

Doryx® capsules were launched in Australia and the US in 1985. Lifecycle management of Doryx® has been a focus for the Company and has resulted in Mayne Pharma successfully reformulating Doryx® from capsules into tablets in 2005 and then subsequently releasing a new 150mg tablet in July 2008. Today, Doryx® is available in capsule form in Australia and Singapore and in the United States Doryx® has been available in 75mg, 100mg and 150mg tablet form. In the US, the Doryx® 150mg tablets represented more than 95% of the Doryx® franchise in 2010. The Company holds a granted US patent for Doryx® which expires in 2022.

In order to continue to protect the market position of Doryx®, Mayne Pharma is working with Warner Chilcott on a number of lifecycle management activities.

US Generic Drug Approvals and Patent Litigation

A key objective for companies operating in the generic pharmaceuticals industry is to launch products earlier than competitors. One method of doing this involves identifying ways to launch a product prior to the expiry of the innovator's patent. This can be accomplished either by researching and developing a generic product that is bioequivalent to the innovator's product but does not infringe on the patent(s) of the product, or by going through a legal process to establish that the innovator's patents are invalid. These steps, taken to launch a product early, can result in vigorous litigation between the generic company and the innovator.

Generic drugs in the US are approved through a special, abbreviated process typically involving the filing of an Abbreviated New Drug Application (ANDA) with the FDA. As a general matter, the amount of testing and effort required to prepare and submit an ANDA is substantially less than that required for a New Drug Application (NDA). Subject to limited exceptions, the ANDA must seek approval of a drug product that has the same active ingredients, dosage form, strength, route of administration, and conditions of use (labeling) as a "reference-listed drug" approved under a NDA. In addition, the ANDA must contain certifications to patents listed with the FDA for the reference-listed drug.

Special procedures apply when an ANDA contains certifications stating that a listed patent is invalid or not infringed. If the owner of the patent or the NDA for the reference-listed drug brings a patent infringement suit within a specified time, an automatic stay bars FDA approval of the ANDA for a specified period of time pending resolution of the suit or other action by the court. The first complete ANDA filed with the FDA that contains a certification challenging the patents listed with the FDA for a reference-listed drug is also eligible to receive 180 days of market exclusivity during which the FDA is prohibited from approving subsequent ANDAs. This 180-day period of exclusivity is subject to certain forfeiture events such as failing to begin marketing the product in a timely manner.

In December 2010, the FDA approved ANDAs for generic competitors Impax Laboratories Inc. (Impax) and Mylan Pharmaceuticals Inc. (Mylan) with respect to generic versions of Doryx® 75mg and 100mg tablets. The Company has no evidence that generic versions of these products have been launched "at-risk" in the market. Doryx® 75mg and 100mg tablets represented less than 5% of the Doryx® franchise based on total prescriptions in 2010, with Doryx® 150mg tablets representing the remainder of the Doryx® franchise.

Doryx® 150mg tablets were given a stay approval of up to 30 months from the FDA, which ends in September 2011. At the date of writing, Mylan had been granted tentative approval to sell a generic form of Doryx® 150mg tablets. If Mylan elects to launch, "at risk", a generic equivalent of Doryx® 150mg tablets, Mayne Pharma and Warner Chilcott will consider their legal rights, including a right to monetary damages.

Mayne Pharma is currently engaged in litigation with respect to the Doryx® product in the US market. This litigation is based on a number of generic companies Paragraph IV filings in the US. Mayne Pharma received Paragraph IV certification notice letters from Actavis Elizabeth LLC, Mylan, Impax, Sandoz Inc., Mutual Pharmaceutical Company Inc. and Heritage Pharmaceuticals Inc. (Heritage). The generic companies are arguing that the Doryx® patent is invalid, unenforceable or not infringed. The litigation is yet to go to trial and a decision is unlikely until 2012. It is also common for an appeal process to follow a trial.

While the Company and Warner Chilcott intend to defend vigorously the Doryx® patent and pursue their legal rights, including the right to monetary damages, there is no assurance as to when the lawsuits will be decided, whether the lawsuits will be successful or that additional generic equivalents of Doryx® 75mg, 100mg or 150mg product will not be approved and enter the market prior to the expiration of the Doryx® patent in 2022. For example, under a December 2010 settlement agreement with Heritage with respect to the patent litigation, Heritage is permitted to market and sell a generic equivalent version of Mayne Pharma's Doryx® 75 mg, 100 mg or 150 mg product on or after December 15, 2016, subject to certain exceptions and conditions.

SUBACAP®

SUBACAP® capsules contain itraconazole in a novel patent-protected formulation that significantly improves bioavailability and reduces pharmacokinetic variability compared to conventional itraconazole.

The improved oral formulation of SUBACAP® provides for a less variable and more reliable product than Sporanox® and generic equivalents, which are hampered by unpredictable and erratic clinical response owing to poorly controlled absorption.

SUBA® Drug Delivery Technology

SUBA® is an established oral drug delivery technology which involves the solid dispersion of a drug in polymer, substantially improving solubility at higher pH. Itraconazole is a drug with established poor solubility and its inclusion in the SUBA® formulation produces a doubling of absorption compared with the conventional capsule formulation and significantly reduced intra- and inter-patient variation in absorption; these characteristics lead to improved clinical reliability.

Regulatory

EUROPE

SUBACAP® was filed for registration in Europe in November 2010 with the UK as the reference member state and Germany, France, Sweden and Spain as concerned member states. Registration is on course for EU approval in FY12.

US

SUBACAP® has an allowed Investigational New Drug (IND) application from the Division Dermatology and Dental Products and the Division of Anti-Infective Products at the FDA. The regulatory framework is 505(b)2. The Company has completed a successful Phase II clinical study in the US that demonstrated SUBACAP® will offer a safe, lower dose alternative to the conventional itraconazole capsule formulation (Sporanox®). A Phase III program is currently being designed for SUBACAP®.

AUSTRALIA

A meeting will be requested with the Therapeutic Goods Administration during FY12.

REST OF WORLD

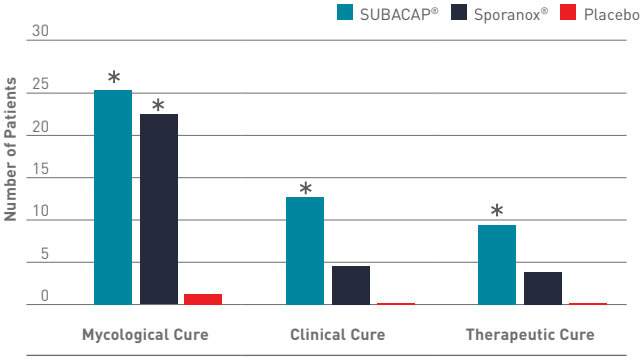
Once European approval is granted, the dossier will be used to support the regulatory process in select Asian and South American countries.

Clinical

A pivotal pharmacokinetic program of four US and two European studies has been completed that has characterised the bioavailability profile of SUBACAP®. A multi-centre, 175 patient comparative study in onychomycosis in the US has established efficacy and safety data following 12 weeks of treatment. In this study, 100mg of SUBACAP® was compared to 200mg of an existing formulation of itraconazole (Sporanox®) and placebo. SUBACAP® was significantly superior to placebo for both efficacy endpoints, whereas the reference product was not significantly different to placebo (see figure below). There were no clinical or therapeutic cures in the placebo group.

All Cures at Week 24

* significantly superior to placebo



Source: Company data on file

Mycological Cure: Negative stain and culture.
Clinical Cure: Nail rating score of 0.
Therapeutic Cure: Both of the above.
Nail rating score: 0 if <10% of the nail is missing, no thickening and no discoloration.

Market Size

The total itraconazole market currently generates in excess of $550 million globally (estimated by Thomson Reuters in 2010). SUBACAP® will target the intraconazole market with potential to also target the terbinafine (Lamisil®) market (estimated by Thomson Reuters in 2010 at US$700 million).

SUBACAP® Benefits

SUBACAP® has significant advantages over the current formulations of itraconazole:

Half dosage

SUBACAP® achieves blood concentrations of itraconazole similar to the innovator product at fifty percent of the dose. This eliminates the risk of "super absorbers" reaching potentially unsafe blood levels as is possible with conventional itraconazole formulations.

Less variable pharmacokinetic profile

The patented formulation provides reduced intra- and inter-patient variability. This improves medication reliability and increases doctor and patient confidence in a successful treatment outcome.

Administration without regard to meals

Clinical studies demonstrate that SUBACAP® can be taken without regard to meals. This is an important consideration in specific patient groups including oncology and HIV patients. Conventional itraconazole capsules need to be taken with a full meal to improve absorption.

Effective in achlorhydria

Unlike conventional itraconzaole products, SUBACAP® does not require an acidic gastric environment to drive drug dissolution. SUBACAP® is expected to be able to be used by achlorhydric patients and those taking medications that increase gastric pH, without a reduction in bioavailability.

Smaller capsule

SUBACAP® is presented in a smaller capsule than Sporanox® making it easier to swallow.

Management Team

In photo above:
Back row Brenton Walter, Stuart Mudge, Mark Cansdale, Angelo Morella, Vince Caretti.
Front row Phillip Tindall, Roger Aston, Christelle Simpson, Keith Smith

Roger Aston
CEO, Executive Director

Previously at Wellcome plc (now Glaxo SmithKline), Dr Aston has more than 20 years' experience in the pharmaceutical and biotechnology industries. His previous positions have included CEO of Peptech Limited (Australia), Director of Cambridge Antibody Technology Limited (UK) and Chairman of Cambridge Drug Discovery Limited (UK - now BioFocus plc). Dr Aston was also founder and CEO of Biokine Technology Ltd (UK) prior to its acquisition by the Peptech Group and a co-founder of pSivida Ltd.

Mark Cansdale
CFO & Company Secretary

Mr Cansdale is a Chartered Accountant with more than 20 years' experience in the accounting and finance profession. Mr Cansdale was formerly the CFO and Company Secretary at McMillan Shakespeare Limited and prior to that, Vision Systems Limited. Mr Cansdale has extensive experience in the areas of business development, mergers and acquisitions, corporate strategy, tax, financial planning and analysis, risk management, treasury and investor relations. Prior to joining Vision Systems in 2002, Mr Cansdale held senior finance positions in the insurance and financial services industry at Norwich Union Australia and spent over five years at KPMG.

Vince Caretti
General Manager Operations

Mr Caretti has 24 years' experience in the biotechnology and pharmaceutical industries and has worked with companies such as Enterovax, Faulding/Mayne Pharma and Purepac (US). Mr Caretti commenced working for Faulding/Mayne Pharma in 1989 and has held various roles in product development, technical services, manufacturing, engineering and operations administration.

Angelo Morella
General Manager Research and Development

Dr Morella has spent 26 years at Faulding/Mayne Pharma, developing innovative oral pharmaceutical products for the international markets, in a variety of roles including Manager of R&D and innovation, project management, formulation and business development, development of improved chemical entities and drug delivery systems. Dr Morella was responsible for the development of products such as Doryx®, Kapanol® and SUBACAP® and is a named inventor on a number of product and pharmaceutical technology patents.

Stuart Mudge
Global Regulatory and Clinical Affairs Manager

Dr Mudge has more than 10 years' experience in regulatory affairs across European, US and Australasian markets. His background includes product development planning, global regulatory submission strategy, direct interactions with the major international regulatory authorities, dossier preparation and submission and post approval lifecycle management. Previously he was the General Manager and Senior Director at Voisin Consulting Australia Pty Ltd

Christelle Simpson
Human Resources Manager

Ms Simpson has over 13 years' experience in various human resources and recruiting roles. Currently overseeing the human resources and training functions, she joined Mayne Pharma in 2006 and has helped transition the business through both the Hospira and Halcygen acquisitions. Prior to joining Mayne Pharma, Ms Simpson spent over five years in human resources at SkyCity Adelaide (Adelaide Casino).

Keith Smith
Commercial Director

Mr Smith has more than 20 years' experience in the international biopharmaceutical industry encompassing both business development and R&D management roles. In 2004, Mr Smith co-founded Virient Pty Ltd, a professional services company providing business development, technical and management services to emerging and established biopharmaceutical enterprises; clients included public and private companies, universities and other public research organisations. Mr Smith also worked at F H Faulding & Co Ltd.

Phillip Tindall
Quality Manager

Mr Tindall has a Bachelor of Applied Science in Chemistry and Microbiology and has 17 years' experience with Faulding/Mayne Pharma. He has held various roles in the quality control, product development and quality assurance departments and has been in his current role for three years. Mr Tindall also held the position of Quality Manager for a company in the food industry for a period of six years.

Brenton Walter
Financial Controller

Mr Walter has over 18 years' experience at Faulding/Mayne. He has worked in a number of diverse financial positions in pharma manufacturing and pharmacy distribution. Mr Walter has wide-ranging finance experience from a number of other industries including paper packaging, manufacturing and distribution and poultry growing, processing and distribution.

TABLE OF CONTENTS TO FINANCIAL REPORT

DIRECTORS' REPORT

The Directors of Mayne Pharma Group Limited, formerly Halcygen Pharmaceuticals Limited, ('Company') present their report together with the financial report of the Company and its controlled entities (collectively the 'Group' or 'Consolidated Entity') for the year ended 30 June 2011 and the Auditor's Report thereon. The information set out below is to be read in conjunction with the Remuneration Report set out on pages 20 to 24 which forms part of this Directors' Report.

DIRECTORS

The Directors of the Company during the financial year and up to the date of this report are:

Mr Roger Corbett (Chairman) – appointed 17 November 2010
Dr Roger Aston (Chief Executive Officer)
Hon Ron Best
Mr Bruce Mathieson
Mr Ian Scholes
Mr Craig Bottomley (Chief Operating Officer) – resigned 29 July 2010

Particulars of the Directors' qualifications, other listed company directorships, experience and special responsibilities are detailed on pages 17 and 18 of the Annual Report. Particulars of the qualifications and experience of the Company Secretary are detailed on page 18 of the Annual Report.

DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the 2011 financial year are:

	BOARD		AUDIT COMMITTEE		NOMINATION COMMITTEE		REMUNERATION COMMITTEE	
	HELD[1]	ATTENDED[2]	HELD[1]	ATTENDED[2]	HELD[1]	ATTENDED[2]	HELD[1]	ATTENDED[2]
Mr R Corbett	7	6	-	-	-	-	-	-
Dr R Aston	10	10	-	-	-	-	3	3
Hon R Best	10	10	5	5	-	-	-	-
Mr B Mathieson	10	8	5	-	-	-	3	3
Mr I Scholes	10	9	5	5	-	-	3	3
Mr C Bottomley	-	-	-	-	-	-	-	-

1. This column shows the number of meetings held during the period the Director was a member of the Board or Committee.
2. This column shows the number of meetings attended.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, there were changes that significantly affected the state of affairs of the Company during the financial year, and are referred to in the review of operations and principal activities sections of this report.

PRINCIPAL ACTIVITIES

The Company bridges the gap between mainstream pharmaceutical companies and high volume generics companies through the development and licensing of new improved proprietary generic formulations known as "Improved Chemical Entities" or "SuperGenerics".

In the opinion of the Directors, there were no significant changes in the nature of the activities of the Group during the course of the year ended 30 June 2011 that are not otherwise disclosed in this Annual Report.

Disclosure of information relating to developments in the business strategies and prospects for the Consolidated Entity for future financial years, which would not, in the opinion of the directors, be unreasonably prejudicial to the Consolidated Entity, is contained in the Business Overview.

REVIEW AND RESULTS OF OPERATIONS

A review of the operations of the Consolidated Entity during the 2011 financial year and of the results of those operations and financial position of the Consolidated Entity is contained in the Business Overview and elsewhere in the Annual Report. These sections of the Annual Report are incorporated by reference into and form part of this Directors' Report.

DIVIDENDS

A final dividend in relation to the year ended 30 June 2010 of 2.0 cents per share, amounting to $3.0 million was paid on 18 November 2010 and a special dividend of one cent per share, amounting to $1.5 million was paid on 25 March 2011. The Directors have not declared a final dividend for the 2011 financial year.

EVENTS SUBSEQUENT TO REPORTING DATE

On 5 July 2011, the Company announced that it had received notification from Warner Chilcott that their application with the US Food & Drug Administration ('FDA') for approval of a new dose strength of Doryx® had been rejected. The Company continues to work with Warner Chilcott to lifecycle manage its Doryx® franchise to new dosage forms and is in discussions with the FDA to address their issues with the new dose strength. The Company will vigorously defend the Doryx® patent that underpins marketing exclusivity in the US.

LIKELY DEVELOPMENTS

Likely developments in the operations of the Consolidated Entity and the expected results of those operations are covered generally in the Business Overview. The Business Overview is incorporated by reference into, and forms part of this Directors' Report.

Further information as to likely developments in the operations of the Consolidated Entity and the expected results of those operations in subsequent financial periods has not been included in this report because disclosure would be likely to result in unreasonable prejudice to the Consolidated Entity.

DIRECTORS' EXPERIENCE AND SPECIAL RESPONSIBILITIES

MR ROGER CORBETT AO, BCom, FAIM, FRMIA

Chairman
Appointed 17 November 2010

Mr Corbett joined the Board of Mayne Pharma Group Limited in November 2010 and was appointed Chairman in January 2011. Mr Corbett has been involved in the retail industry for more than 40 years. In 1984, Mr Corbett joined the board of David Jones Australia as a Director of Operations and in 1990 was appointed to the board of Woolworths Limited and to the position of Managing Director of BigW. In 1999, Mr Corbett was appointed Chief Executive Officer of Woolworths Limited, from which he retired in 2006. Mr Corbett is currently the Chairman of Fairfax Media Limited, one of Australia's largest diversified media companies, a director of the Reserve Bank of Australia, a director of Wal-Mart Stores and Chairman of PrimeAg Australia Limited.

In addition to being Chairman, Mr Corbett was appointed to the Remuneration Committee as Chairman effective 21 July 2011.

DR ROGER ASTON BSc (Hons), PhD

Chief Executive Officer
Appointed 18 August 2005

Previously at Wellcome plc (now Glaxo SmithKline), Dr Aston has more than 20 years of experience in the pharmaceutical and biotechnology industries. His previous positions have included CEO of Peptech Limited (Australia), director of Cambridge Antibody Technology Limited (UK) and Chairman of Cambridge Drug Discovery Limited (UK – now BioFocus plc). Dr Aston was also founder and CEO of Biokine Technology Ltd (UK) prior to its acquisition by the Peptech Group. Dr Aston was also a director of pSivida Ltd.

During the past 20 years of his career, Dr Aston has been closely involved in the development of many successful pharmaceutical and biotechnology companies. Dr Aston has extensive experience including negotiating global licence agreements, overseeing product registration activities with the FDA, the establishment and implementation of guidelines and operating procedures for manufacturing and clinical trials, overseeing manufacturing of human and veterinary products, private and public fund raising activities and the introduction of corporate governance procedures in accordance with the Greenbury and Cadbury guidelines (UK) and Sarbanes Oxley (USA).

Dr Aston held the position of Chairman until the appointment of Mr Corbett as Chairman in January 2011 and is a member of the Nomination Committee. He was also a member of the Remuneration Committee until 21 July 2011.

HON. RON BEST

Non-Executive Director
Appointed 26 July 2006

The Hon. Ron Best is a highly respected former member of the Victorian Parliament (1988 to 2002), having held a number of senior positions in the National Party of Australia (Victoria) including Parliamentary Secretary, Shadow Minister for Housing and Spokesman for Health, Housing, Racing, Sport and Recreation. Mr Best has also been a member of various Parliamentary Committees including the Public Accounts and Estimates Committee, the Environmental and Natural Resources Committee and a Board Member of the Victorian Health Promotion Foundation. Prior to his political career, Mr Best was the owner of a successful food distribution business and General Manager of the Glacier Food Group. Mr Best is a consultant to PFD Food Services Pty Ltd, one of Australia's largest privately-owned food service companies.

Mr Best is Chairman of the Nomination Committee and a member of the Audit Committee.

MR BRUCE MATHIESON

Non-Executive Director
Appointed 16 February 2007

Mr Mathieson is currently a Director and Chief Executive Officer of Australian Leisure and Hospitality Group Pty Limited, a joint venture between Woolworths Limited and the Mathieson Family. The ALH Group owns approximately 280 hotels and 450 retail outlets across Australia, and employs more than 13,000 staff. Mr Mathieson has operated in the hotel, leisure and hospitality industry since 1974 and is a well-respected member of the Australian business community. He has previously served as a Director of the Carlton Football Club. He is trained as an engineer, and brings management and transactional experience from across a number of industries to the Board.

Mr Mathieson was Chairman of the Remuneration Committee until 21 July 2011 and is a member of the Audit and Nomination Committees.

MR IAN SCHOLES BCom, CA

Non-Executive Director
Appointed 17 October 2007

Mr Scholes has extensive financial and corporate advisory experience, both in Australia and internationally. Mr Scholes has held senior roles within Merrill Lynch Australia, most recently as Vice Chairman of Investment Banking. Previously Mr Scholes held the position of Executive General Manager at National Australia Bank Limited, running the corporate and institutional banking division. Mr Scholes is currently a Partner and Chief Executive Officer of Chord Capital Pty Ltd, and has previously held positions on the Board of St Vincent's Health and as Chairman of the St Vincent's Foundation.

Mr Scholes is Chairman of the Audit Committee and a member of the Remuneration Committee.

COMPANY SECRETARY

Mr Mark Cansdale, BEc, CA was appointed as Chief Financial Officer and Company Secretary of the Company on 27 January 2011. Mr Cansdale is a Chartered Accountant and Company Secretary with more than 20 years' experience in the accounting and finance profession. Mr Cansdale has extensive experience in the areas of business development, mergers and acquisitions, corporate strategy, tax, financial planning and analysis, risk management, treasury and investor relations.

Mr Cansdale was appointed following the resignation of Mr Aaron Finlay who had held the position of Company Secretary since August 2005.

DIRECTORS' INTERESTS IN SHARE CAPITAL

The relevant interest of each Director in the share capital of the Company as at the date of this report is as follows:

	FULLY PAID ORDINARY SHARES	NUMBER OF OPTIONS OVER ORDINARY SHARES
Mr R Corbett	1,676,319	-
Dr R Aston	9,071,000	2,525,000
Hon R Best	957,244	350,000
Mr B Mathieson	13,411,622	600,000
Mr I Scholes	311,622	600,000

UNISSUED SHARES UNDER OPTION

As at the date of this Directors' Report there were 5,575,000 unissued ordinary shares under option (4,075,000 at the reporting date). Details of these options are as follows:

DATE OPTIONS GRANTED	EXPIRY DATE	EXERCISE PRICE	NUMBER UNDER OPTION
17 April 2007	17 April 2012	$0.60	875,000
30 November 2007	30 November 2012	$0.60	250,000
29 October 2009	31 December 2012	$0.27	2,950,000
25 July 2011	27 January 2016	$0.35	1,500,000

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company.

SHARES ISSUED AS A RESULT OF THE EXERCISE OF OPTIONS

During the financial year options have been exercised to acquire a total of 3,600,000 fully paid ordinary shares in Mayne Pharma Group Limited at a weighted average exercise price of $0.41 per share.

NON-AUDIT SERVICES

The Company's auditor, Ernst & Young Australia, provided the following non-audit services. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	2011 $	**2010 $**
Taxation services	125,910	25,144
Other services	28,750	23,550
Total	154,660	48,694

INDEMNIFICATION AND INSURANCE OF OFFICERS

During the financial year, the Company maintained an insurance policy which indemnifies the Directors and Officers of Mayne Pharma Group Limited in respect of any liability incurred in connection with the performance of their duties as Directors or Officers of the Company, other than for matters involving a wilful breach of duty or a contravention of sections 182 or 183 of the Corporations Act 2001 as permitted by section 199B of the Corporations Act 2001. The Company's insurers have prohibited disclosure of the amount of the premium payable and the level of indemnification under the insurance contract.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company's operations are subject to various environmental laws and regulations. These environmental laws and regulations control the use of land, the erection of buildings and structures on land, the emission of substances to water, land and atmosphere, the emission of noise and odours, the treatment and disposal of waste, and the investigation and remediation of soil and groundwater contamination.

The Company has procedures in place designed to ensure compliance with all environmental regulatory requirements. In particular, it has developed an environmental management system to enable identification and assessment of environmental hazards which arise from its activities. This management system provides processes for effectively managing environmental risks by applying sound practices for the prevention of pollution and disposal and minimisation of waste.

The Company reports to the National Pollutant Inventory every year its land, air and water emissions together with gas and electricity usage. The Company has recycling initiatives in place for paper/cardboard, soft plastics, metals, wood, metal, plastic drums, oil and polystyrene.

The Directors are not aware of any material breaches of environmental regulations by the Group.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest thousand dollars (where rounding is applicable and where noted ($'000)) under the option available to the Company under ASIC CO 98/0100. The Company is an entity to which the Class Order applies.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's independence declaration has been received from the Auditor and is included on page 25 of this report.

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for the key management personnel ("KMP") and includes all Directors and Executives of Mayne Pharma Group Limited.

Executives are those directly accountable for the operational management and strategic direction of the Company.

KEY MANAGEMENT PERSONNEL DETAILS

The Directors of Mayne Pharma Group Limited during the financial year were:

- Mr Roger Corbett AO – Chairman (appointed to the Board 17 November 2010)
- Dr Roger Aston – Executive Director and Chief Executive Officer
- Hon Ron Best – Non-Executive Director
- Mr Bruce Mathieson – Non-Executive Director
- Mr Ian Scholes – Non-Executive Director
- Mr Craig Bottomley – Executive Director and Chief Operating Officer (ceased employment 29 July 2010)

Other key management personnel consisted of:

- Mr Mark Cansdale – Chief Financial Officer and Company Secretary (appointed 27 January 2011)
- Mr Vince Caretti – General Manager, Operations
- Dr Angelo Morella – General Manager, Research and Innovation
- Mr Aaron Finlay – Chief Financial Officer and Company Secretary (ceased employment 27 January 2011)
- Ms Gina Greentree – Head of Marketing and Consumer Group (ceased employment 31 March 2011)
- Mr Peter Schembri – General Manager, Business Development and Scientific Affairs (ceased employment 6 June 2011)

REMUNERATION POLICY

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and other members of the KMP. The Board will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Such officers are paid their base emolument in cash only.

To assist in achieving this objective, the Board will link the nature and amount of Executive Directors' and Officers' emoluments to the Company's financial and operational performance. Given the nature of the industry in which the Company operates and the position it is in regarding the on-going development of new products, the review of performance can give regards to elements such as the scientific progress and commercialisation of the Company's projects, results of trials, progress with the development of relationships with sales and marketing partners, research institutions, and other collaborations.

Remuneration paid to the Company's Directors and executives is also determined with reference to the market level of remuneration for other listed development, pharmaceutical and manufacturing companies in Australia. This assessment is undertaken with reference to published information provided by various executive search firms operating in the sector.

Fixed remuneration

Executive directors and executive officers

Fixed remuneration consists of a base remuneration package, which may include salary, consulting fees and employer contributions to superannuation funds.

Fixed remuneration levels for executive directors and executive officers are reviewed annually by the Board through a process that considers the employees' personal development, achievement of key performance objectives for the year, industry benchmarks wherever possible and CPI data.

Key performance indicators (KPIs) are individually tailored for the Chief Executive Officer by the Board and the other executive members of the key management personnel by the Chief Executive Officer, and reflect an assessment of how that employee can fulfil their particular responsibilities in a way that best contributes to Group performance and shareholder wealth in that year.

Non-executive directors

Total remuneration for non-executive directors is determined by resolution of shareholders. The maximum available aggregate cash remuneration approved for non-executive directors at the 2010 Annual General Meeting is $500,000. Non-executive directors do not receive retirement benefits other than a superannuation guarantee contribution required by government regulation, which is currently 9% of their fees, except where a non-executive director elects to have their directors' fees paid as contributions to a superannuation fund.

Non-executive directors may provide specific consulting advice to the Group upon direction from the Board. Remuneration for this work is made at market rates. No such consulting advice was provided to the Company during the year.

Performance-linked remuneration

Key management personnel may receive bonuses and/or share options based on achievement of specific goals related to performance against individual KPIs and to the performance of the Group as a whole as determined by the Directors based on a range of factors. These factors can include traditional financial considerations such as financial operating performance, deals concluded, increases in the market capitalisation of the Company and successful capital raisings and also industry-specific factors relating to the advancement of the Company's research and development activities and intellectual property portfolio, operational performance, collaborations and relationships with scientific institutions, third parties and internal employees. These measures were chosen as they represent the key drivers for the short-term success of the business and provide a framework for delivering long-term value. Refer to the Employment Contracts section of this report for further information.

Options over ordinary shares may be awarded under the Employee Share Option Plan to the Chief Executive and other executives with various vesting conditions such as the individuals' performance against milestones, the level of involvement in achieving corporate milestones and goals, including, but not limited to growth in earnings per share.

Non-executive directors may also participate in the Company's Employee Share Option Plan, given the Company's size and stage of development and the necessity to attract the highest calibre of professionals to the role, whilst maintaining the Company's cash reserves. No options were issued to key management personnel during the year.

Hedging of equity awards

The Company prohibits KMP from entering into arrangements to protect the value of unvested equity awards. The prohibition includes entering into contracts to hedge their exposure to options awarded as part of their remuneration package.

ELEMENTS OF KEY MANAGEMENT PERSONNEL REMUNERATION

Remuneration packages may contain the following key elements:

- Short-term benefit – salary/fees, annual leave, bonuses and other benefits such as novated lease payments;
- Post-employment benefits – superannuation, and
- Share-based payments – share options granted under the Employee Share Option Plan as disclosed in Note 26 to the financial statements.

The following table discloses key management personnel remuneration during the year ended 30 June 2011:

	SHORT-TERM BENEFITS				POST EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	SHARE-BASED PAYMENTS	TERMINATION PAYMENTS		
	DIRECTORS' FEES	SALARY	BONUS[1]	OTHER BENEFITS[2]	SUPER-ANNUATION	OTHER[3]	OPTIONS		TOTAL	PROPORTION RELATED TO PERFORMANCE
	$	$	$	$	$	$	$	$	$	%
Non-Executive Directors										
Mr R Corbett	59,800	-	-	-	5,382	-	-	-	65,182	-
Hon R Best	-	-	-	-	59,950	-	-	-	59,950	-
Mr B Mathieson	55,000	-	-	-	4,950	-	-	-	59,950	-
Mr I Scholes	55,000	-	-	-	4,950	-	-	-	59,950	-
Executive Directors										
Dr R Aston	-	568,800	-	21,384	49,780	21,162	-	-	661,126	-
Mr C Bottomley	-	18,854	-	-	5,519	-	-	-	24,373	-
Total Directors	169,800	587,654	-	21,384	130,531	21,162	-	-	930,531	
Other key management personnel										
Mr M Cansdale	-	127,650	40,875	6,458	10,012	-	-	-	184,995	24.1
Mr V Caretti	-	161,235	-	-	27,591	17,242	-	-	206,068	-
Dr A Morella	-	146,369	-	-	19,541	12,881	-	-	178,791	-
Mr A Finlay[4]	-	134,466	-	32,200	18,952	-	-	-	185,618	-
Ms G Greentree[5]	-	225,000	-	-	27,000	-	-	92,308	344,308	-
Mr P Schembri[6]	-	152,003	-	-	17,543	11,235	-	99,138	279,919	-
Total other KMP	-	946,723	40,875	38,658	120,639	41,358	-	191,446	1,379,699	
Total	169,800	1,534,377	40,875	60,042	251,170	62,520	-	191,446	2,310,230	

1. Bonuses are accrued when specified personal and/or corporate parameters are met.
2. Other benefits includes car lease payments, rental and travel allowances.
3. Other long-term benefits represent accruals for long service leave entitlements that may arise should the relevant key management personnel meet the eligibility requirements in the future.
4. Mr Finlay ceased employment with the Group effective 27 January 2011.
5. Ms Greentree ceased employment with the Group effective 31 March 2011.
6. Mr Schembri ceased employment with the Group effective 6 June 2011.

The following table discloses key management personnel remuneration during the year ended 30 June 2010:

	SHORT-TERM BENEFITS				POST EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	SHARE-BASED PAYMENTS		
	DIRECTORS' FEES $	SALARY $	BONUS $	OTHER BENEFITS[1] $	SUPER-ANNUATION $	OTHER[2] $	OPTIONS $	TOTAL $	PROPORTION RELATED TO PERFORMANCE %
Non-Executive Directors									
Hon R Best	-	-	-	-	43,600	-	57,951	101,551	57.1
Mr B Mathieson	40,000	-	-	-	3,600	-	57,951	101,551	57.1
Mr I Scholes	40,000	-	-	-	3,600	-	57,951	101,551	57.1
Executive Directors									
Dr R Aston	35,000	315,000	-	-	31,500	6,253	314,590	702,343	44.8
Mr C Bottomley	35,000	200,000	-	-	21,150	4,198	231,803	492,151	47.1
Total Directors	150,000	515,000	-	-	103,450	10,451	720,246	1,499,147	
Other key management personnel									
Mr A Finlay	-	196,943	-	55,200	23,143	5,455	231,803	512,803	45.2
Mr V Caretti	-	101,856	22,643	-	19,925	-	-	144,434	17.1
Ms G Greentree	-	50,000	-	-	4,500	-	-	54,500	-
Dr A Morella	-	93,584	20,092	-	14,477	-	-	128,153	17.1
Mr P Schembri	-	104,644	21,668	-	11,411	-	-	137,723	17.1
Total other KMP	-	547,027	64,403	55,200	73,456	5,455	231,803	977,344	
Total	150,000	1,062,000	64,403	55,200	176,906	15,906	952,049	2,476,491	

1. Other benefits include travel allowances.
2. Other long-term benefits represent accruals for long service leave entitlements that may arise should the relevant key management personnel meet the eligibility requirements in the future.

VALUE OF OPTIONS ISSUED TO KEY MANAGEMENT PERSONNEL

The following table discloses the options granted, exercised and lapsed during the year:

	OPTIONS GRANTED	OPTIONS EXERCISED	OPTIONS LAPSED			
	VALUE AT GRANT DATE $	INTRINSIC VALUE AT EXERCISE DATE $	VALUE AT TIME OF LAPSE $	TOTAL VALUE OF OPTIONS GRANTED, EXERCISED AND LAPSED $	VALUE OF OPTIONS INCLUDED IN REMUNERATION FOR THE YEAR $	PERCENTAGE OF TOTAL REMUNERATION FOR THE YEAR THAT CONSISTS OF OPTIONS %
30 June 2011						
Mr R Corbett	-	-	-	-	-	-
Dr R Aston	-	126,000	-[1]	126,000	-	-
Hon R Best	-	77,500	-	77,500	-	-
Mr B Mathieson	-	-	-	-	-	-
Mr I Scholes	-	-	-	-	-	-
Mr C Bottomley	-	249,500	-	249,500	-	-
Mr M Cansdale	-	-	-	-	-	-
Mr V Caretti	-	-	-	-	-	-
Dr A Morella	-	-	-	-	-	-
Mr A Finlay	-	625,500	-	625,500	-	-
Ms G Greentree	-	-	-	-	-	-
Mr P Schembri	-	-	-	-	-	-
Total	-	1,078,500	-	1,078,500	-	

1. Dr Aston held 25,000 options with an exercise price of $0.60 that lapsed when the share price was $0.56 and therefore the intrinsic value was nil.

	OPTIONS GRANTED	OPTIONS EXERCISED	OPTIONS LAPSED			
	VALUE AT GRANT DATE $	INTRINSIC VALUE AT EXERCISE DATE $	VALUE AT TIME OF LAPSE $	TOTAL VALUE OF OPTIONS GRANTED, EXERCISED AND LAPSED $	VALUE OF OPTIONS INCLUDED IN REMUNERATION FOR THE YEAR $	PERCENTAGE OF TOTAL REMUNERATION FOR THE YEAR THAT CONSISTS OF OPTIONS %
30 June 2010						
Dr R Aston	314,590	-	-	314,590	314,590	44.8
Hon R Best	57,951	427,500	-	485,451	57,951	57.1
Mr B Mathieson	57,951	-	-	57,951	57,951	57.1
Mr I Scholes	57,951	-	-	57,951	57,951	57.1
Mr C Bottomley	231,803	420,000	-	651,803	231,803	47.1
Mr A Finlay	231,803	-	-	231,803	231,803	45.2
Mr V Caretti	-	-	-	-	-	-
Ms G Greentree	-	-	-	-	-	-
Dr A Morella	-	-	-	-	-	-
Mr P Schembri	-	-	-	-	-	-
Total	952,049	847,500	-	1,799,549	952,049	

There were no alterations to the terms and conditions of options awarded as remuneration since their award date.

OPTIONS GRANTED SUBSEQUENT TO BALANCE DATE

Since the end of the financial year, the Company has issued options to an executive as part of his remuneration package as follows:

NAME	NUMBER GRANTED	DATE OF GRANT	EXERCISE PRICE	EXPIRY DATE
Mr M Cansdale	1,500,000	25 July 2011	$0.35	27 January 2016

The options will vest subject to continued employment to the vesting date of 27 January 2014 and achievement of predetermined earnings per share targets over the vesting period.

SHARES ISSUED ON EXERCISE OF OPTIONS BY KMP

	SHARES ISSUED NUMBER	PAID PER SHARE $	UNPAID PER SHARE $
30 June 2011			
Hon R Best	250,000	0.60	-
Mr C Bottomley	750,000	0.60	-
Mr C Bottomley	400,000	0.27	-
Mr A Finlay	1,400,000	0.27	-
Mr A Finlay	250,000	0.60	-
Total	3,050,000		
30 June 2010			
Hon R Best	750,000	$0.11	-
Mr C Bottomley	1,000,000	$0.27	-
Total	1,750,000		

EMPLOYMENT CONTRACTS

The Company has entered into standard employment agreements with all key management personnel. The agreements provide for fixed remuneration and short-term incentives (STI) based on achievement of Group and/or personal targets. The short-term incentives are generally cash-based, except for Mr Cansdale's STI entitlement which is split between cash and restricted shares (80%/20%). Any restricted shares issued will have dividend and voting rights attached but will be held in escrow for three years, and will be forfeited if Mr Cansdale's employment is terminated. In FY11 Mr Cansdale earned 50% of his full-year STI entitlement reflecting his performance over the first six months of his employment; this was paid in cash.

Mr Cansdale's contract also provides for provision of a long-term incentive in the form of options over ordinary shares. The Board approved an issue of 1,500,000 options to Mr Cansdale on 25 July 2011. These options were issued with an exercise price of $0.35, based on the five-day volume weighted average price of the Group's shares and will vest in January 2014 subject to the achievement of EPS growth targets over the vesting period and Mr Cansdale's continuing employment in the Group. Further details of the option valuation are contained in Note 19 of the financial statements.

The agreements provide for an indefinite period of appointment, and may be terminated by either party at three months' notice, with the exception of Dr Aston whose termination notice period is 12 months.

No termination payments are payable on termination of employment.

GROUP PERFORMANCE

In considering the Group's performance and its effect on shareholder wealth, the Board have regard to a broad range of factors, primarily related to financial and operational performance, the scientific progress and commercialisation of the Company's projects, results of trials, relationship building with sales and marketing partners, research institutions, collaborations etc.

The lack of bonuses paid to the key management personnel (other than Mr Cansdale, whose bonus is based on specific personal KPIs) reflects the disappointing result in FY11 and the resultant reduction in the share price. It is the Board's intention to implement a broader-based long-term incentive plan that will place a greater percentage of key management personnel and other senior staff's remuneration at risk and more closely align their remuneration to the earnings growth of the Company.

The following table outlines Mayne Pharma Group Limited's results over the last five years to 30 June 2011:

	2011	2010	2009	2008	2007
Revenue ($000)	50,101	36,713	-	-	-
NPAT ($000)	1,679	3,253	(3,761)	(3,472)	(1,824)
Basic EPS (cents)	1.12	2.64	(4.94)	(4.56)	(4.13)
Dividends per share (cents)	1.0	2.0	-	-	-

This Directors' Report is signed in accordance with a resolution of the Directors.

Dated at Melbourne this 13th day of September 2011.

Mr Roger Corbett AO
Chairman

Dr Roger Aston
Chief Executive Officer

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Auditor's Independence Declaration to the Directors of Mayne Pharma Group Limited

In relation to our audit of the financial report of Mayne Pharma Group Limited for the financial year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

David Petersen
Partner
Melbourne
13 September 2011

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Mayne Pharma Group Limited is responsible for the corporate governance of the Group and is committed to applying the ASX Corporate Governance Council Corporate Governance Principles and Recommendations ("ASX Principles") where practicable. The Board guides and monitors the business and affairs of the Group on behalf of the shareholders. It is a requirement of the Board that the Company maintains high standards of ethics and integrity at all times.

The ASX Principles are an important regulatory guide for listed companies reporting on their corporate governance practices. Under ASX Listing Rule 4.10.3, listed companies must disclose the extent to which they have followed the ASX Principles, and if any of the recommendations have not been followed then the Company must explain why not.

The requirements under Listing Rule 4.10.3 apply to Mayne Pharma since the Company's listing on the Australian Securities Exchange on 29 June 2007 and this Corporate Governance Statement sets out the Company's compliance with the ASX Principles and explains any departures by the Company from the ASX Principles during the year ended 30 June 2011.

CORPORATE GOVERNANCE WEBSITE

Important information relating to the Company's corporate governance policies and practices are set out on the Company's website at www.maynepharma.com. The following documents are available on this website:

- Board Charter;
- Audit Committee, Remuneration Committee and Nomination Committee Charters;
- Code of Conduct;
- Communications Policy;
- Continuous Disclosure Policy, and
- Securities Trading Policy.

The corporate governance section of Mayne Pharma's website was first made available from 27 June 2007 and the documents referred to above were available from that date. The Company will continue to update its policies and practices to reflect developing corporate governance requirements and practices.

ROLE AND RESPONSIBILITY OF THE BOARD

The Board's duties

As the Board acts on behalf of and is accountable to the shareholders, the Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations and strives to meet those expectations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

The role of the Board is to oversee and guide the management of the Group with the aim of protecting and enhancing the interests of its shareholders and taking into account the interests of other stakeholders including employees and the wider community.

The Board has adopted a formal Charter that clearly establishes the relationship between the Board and management and describes their functions and responsibilities. The Charter was last reviewed on 31 August 2011. The Board Charter has been posted on the corporate governance section of the Company's website.

The Board is responsible for setting the strategic direction of the Group, establishing goals for management and monitoring the achievement of those goals. The Chief Executive Officer is responsible to the Board for the day-to-day management of the Group. The Board ensures that the Chief Executive Officer is appropriately qualified and experienced to discharge his responsibilities and has procedures in place to assess the performance of the Chief Executive Officer.

Code of conduct

Directors of the Company are also subject to Mayne Pharma's Code of Conduct (see further discussion below). The Code of Conduct is considered by the Board to be an effective way to guide the behaviour of all directors and employees and demonstrates the Company's commitment to ethical and compliant practices.

BOARD COMPOSITION

The composition of the Board is determined in accordance with the following principles and guidelines:

- the Board should comprise at least three directors;
- the Board should comprise directors with an appropriate range of qualifications and expertise; and
- the Board shall meet regularly and follow meeting guidelines set down to ensure all directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

As at the date of this report, the Board comprises three non-executive independent directors, an independent non-executive Chairman and an executive director. Details of the directors are set out in the Directors' Report.

Independence of directors

The Board has reviewed the position and associations of each of the five Directors in office at the date of this report and considers that four of the Directors are independent. In considering whether a director is independent, the Board has regard to the independence criteria in ASX Corporate Governance Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new directors upon appointment and reviews their independence, and the independence of other directors, as appropriate.

The Board considers that Messrs Corbett, Best, Mathieson and Scholes meet the criteria in Principle 2. They have no material business or contractual relationship with the Company, other than as a director, and no conflicts of interest that could interfere with the exercise of independent judgement.

Dr Aston is employed in an executive capacity by the Company and so is not considered to be independent.

The Company appointed an independent non-executive Chairman during the year and is now in compliance with Recommendation 2.2, which states that the chairperson should be an independent director.

The Directors will continue to monitor the composition of the Board to ensure its structure remains appropriate and consistent with effective management and good governance.

APPOINTMENT, ELECTION AND RE-ELECTION OF DIRECTORS

The Constitution of the Company requires one third of the directors, other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been appointed by the Board are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of directors to retire at that Annual General Meeting. Directors cannot hold office for a period in excess of three years or later than the third Annual General Meeting following their appointment without submitting themselves for re-election. Retiring directors are eligible for re-election by shareholders.

NOMINATION AND APPOINTMENT OF NEW DIRECTORS

Recommendations of candidates for new directors are made by the Directors for consideration by the Board as a whole. If it is necessary to appoint a new director to fill a vacancy on the Board or to complement the existing Board, a wide potential base of possible candidates is considered. If a candidate is recommended by a director, the Board assesses that proposed new director against a range of criteria including background, experience, professional skills, personal qualities, the potential for the candidate's skills to augment the existing Board and the candidate's availability to commit to the Board's activities. If these criteria are met and the Board appoints the candidate as a director, that director must retire at the next Annual General Meeting of Shareholders and will be eligible for election by shareholders at that General Meeting.

BOARD MEETINGS

The Board meets formally at least eight times each year, and from time to time meetings are convened outside the scheduled dates to consider issues of importance. The Board met 10 times between 1 July 2010 and 30 June 2011.

Directors' attendance at Board meetings is detailed on page 16 of this annual report.

The agenda for meetings is prepared by the Company Secretary, in conjunction with the Chairman, Chief Executive Officer, and periodic input from the Board. Comprehensive Board papers are distributed to directors in advance of scheduled meetings. Board meetings typically take place at the Company's head office or at the Company's manufacturing facility based in Salisbury, South Australia to assist the Board in its understanding of operational issues.

PERFORMANCE REVIEW

The Chairman evaluates the performance of the Board as a whole and the individual Directors. The performance evaluation includes an examination of the performance of the Board and individual Directors as against the Board Charter. The evaluation may establish goals and objectives for the Board and provide any recommendations for improvement to Board performance. The Chairman undertook the performance appraisal of the Board with respect to the financial year ended 30 June 2011 in August 2011.

The Board aims to ensure that shareholders are informed of all information necessary to assess the performance of the Directors. Information is communicated to the shareholders through:

- the annual report;
- the half-yearly report;
- the annual general meeting and other meetings to obtain shareholder approval for Board actions as appropriate; , and
- continuous disclosure in accordance with ASX Listing Rule 3.1 and the Company's Continuous Disclosure Policy.

BOARD MEMBERS' RIGHTS TO INDEPENDENT ADVICE

The Board has procedures to allow Directors, in the furtherance of their duties as directors or members of a Committee, to seek independent professional advice at the Company's expense, subject to the prior written approval of the Chairman.

BOARD COMMITTEES

The Board has established the following committees to advise and support the Board in carrying out its duties:

- Audit Committee;
- Nomination Committee; and
- Remuneration Committee.

Directors' attendance at meetings of these committees is detailed on page 16 of this annual report.

Audit Committee

It is the Board's responsibility to ensure that an effective internal control framework exists within the Company, including internal controls to deal with both the effectiveness and efficiency of significant business processes. Effective internal controls include the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information.

The Board has established an Audit Committee, which operates under a Charter approved by the Board, and has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Company to the Audit Committee. The Charter was last reviewed and approved by the Board on 31 August 2011.

The duties and responsibilities of the Audit Committee include:

- ensuring appropriate accounting policies and procedures are defined, adopted and maintained;
- ensuring that the operating and management reporting procedures, and the system of internal control, are of a sufficiently high standard to provide timely, accurate and relevant information as a sound basis for management of the Group's business;
- reviewing the Financial Statements prior to their approval by the Board;
- reviewing the scope of work including approval of strategic and annual audit plans and effectiveness of the external audit function;
- ensuring that appropriate processes are in place to ensure compliance with all legal requirements affecting the Group;
- ensuring that all internal and industry codes of conduct and standards of corporate behaviour are being complied with;
- appointing, on recommendation by the Chief Executive Officer, a person(s) responsible for Internal Audit functions as specified from time to time by, and in accordance with, the Committee's Charter;
- making recommendations to the Board of Directors on the appointment, reappointment or replacement (subject, if applicable, to shareholder ratification), monitoring of effectiveness, and independence of the external auditors; and
- actioning any other business processes or functions which may be referred to it by the Board of Directors.

The operation and responsibilities of the Audit Committee are consistent with ASX Principle 4. The Committee met five times during the financial year ended 30 June 2011.

The members of the Audit Committee at the date of this report were:

- Mr I Scholes – Chairman;
- Hon R Best; and
- Mr B Mathieson.

In addition to the members of the Committee, the CEO and CFO attend the Audit Committee meetings wherever possible and representatives of the External Audit firm are invited to attend when appropriate.

Appointment of external auditors

The Audit Committee is directly responsible for the appointment, reappointment or replacement (subject, if applicable, to shareholder ratification), remuneration, monitoring of effectiveness, and independence of the external auditors, including resolution of disagreements between management and the auditor regarding financial reporting.

The Committee must approve all audit and non-audit services provided by the external auditors and must not engage the external auditors to perform any non-audit/assurance services that may impair or appear to impair the external auditor's judgement or independence in respect of the Company. The Committee may delegate the approval authority to a member of the Committee. The decisions of any Audit Committee member to whom the approval authority is delegated must be presented to the full Committee at its next scheduled meeting.

When reviewing the auditor's independence, the Committee will require the rotation of the audit partner at least once every five years, in accordance with the Corporations Act 2001. In line with this requirement, the audit partner will be rotated for the coming financial year.

Nomination Committee

The Board has established a Nomination Committee to assist the Board in selecting candidates for the position of director.

The members of the Nomination Committee at the date of this report were:

- Hon R Best – Chairman;
- Dr R Aston; and
- Mr B Mathieson.

The primary purpose of the Nomination Committee as set out in its Charter is to support and advise the Board in fulfilling their responsibilities to shareholders in ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of directors having regard to the law and standards of governance by:

- Assessing the skills required on the Board, and the extent to which the required skills are represented on the Board;
- Establishing processes for the review of the performance of individual directors and the Board as a whole; and
- Establishing processes for the identification of suitable candidates for appointment to the Board.

The Charter was last reviewed and approved by the Board on 31 August 2011. The operation and responsibilities of the Nomination Committee are generally consistent with ASX Principle 2.

The Committee did not meet during the financial year ended 30 June 2011, as the appointment of a new director was resolved in June 2010.

Remuneration Committee

The Board has established a Remuneration Committee to assist the Board in ensuring that appropriate and effective remuneration packages and policies are implemented within Mayne Pharma for the Chief Executive Officer and direct reports to the Chief Executive Officer. The Committee's role also extends to the review of non-executive directors' fees.

The Remuneration Committee shall comprise at least three members and the members of the Remuneration Committee at the date of this report were:

- Mr R Corbett – Chairman;
- Mr B Mathieson; and
- Mr I Scholes.

The duties and responsibilities of the Remuneration Committee are set out in its Charter which was last reviewed and approved by the Board on 31 August 2011. The key duties and responsibilities are:

- To review and recommend to the Board, remuneration policies and packages for the Chief Executive Officer, executive directors and direct reports to the Chief Executive Officer.
- To recommend to the Board any changes in remuneration policy including superannuation, other benefits and remuneration structure for executives and which is likely to have a material impact on the Company.
- To review and recommend to the Board proposals for employee and non-executive director equity plans.
- To review and recommend to the Board proposals for short- and long-term incentive programs for executives.
- To review and recommend to the Board any changes to non-executive directors' fees.
- To ensure there is a proper performance management process in place throughout the organisation and that it is operating effectively.
- To be informed of:
    - current trends in executive remuneration and associated incentive initiatives;
    - legislative issues associated with executive remuneration programs.

The Committee met three times during the financial year ended 30 June 2011.

Remuneration for directors and executives

A brief discussion on the Company's remuneration policies in respect of directors and executives is set out on pages 20 to 21 of this annual report. Detailed disclosure of the remuneration paid to the Company's directors and executives is set out on pages 21 to 23.

INTEGRITY IN FINANCIAL REPORTING

Consistent with ASX Principle 7.3, the Company's financial report preparation and approval process for the financial year ended 30 June 2011 involved both the Chief Executive Officer and the Chief Financial Officer providing detailed representations to the Board covering:

- compliance with the Company's accounting policies and relevant accounting standards;
- the accuracy of the financial statements and that they provide a true and fair view;
- integrity and objectivity of the financial statements; and
- effectiveness of the system of internal control.

RISK IDENTIFICATION AND MANAGEMENT

The Board accepts that taking and managing risk is central to building shareholder value and the Board is responsible for the Group's risk management strategy. Management is responsible for implementing the Board's strategy and for developing policies and procedures to assist the Board to identify, manage and mitigate the risks across the Group's operations.

The Company employs executives and retains consultants each with the requisite experience and qualifications to enable the Board to manage the risks to the Company. The Board has delegated the oversight of the Group's risk management processes and procedures to the Audit Committee.

Following the acquisition of MPI in FY10, the Board engaged an independent consultant during the period to review and assess the risk management policies and procedures. Management is implementing the recommendations resulting from this review and progress has been reviewed by the Audit Committee on several occasions during the year, and has satisfied itself that all significant risks are being appropriately managed.

SECURITIES TRADING BY DIRECTORS AND EMPLOYEES

The Company approved a Securities Trading Policy on 30 December 2010. The policy summarises the law relating to insider trading and sets out the policy of the Company on directors, officers, employees and consultants dealing in securities of the Company.

The policy is reviewed regularly and a summary of the Securities Trading Policy can be accessed on the corporate governance section of the Company's website at www.maynepharma.com. This policy is provided to all directors and employees and compliance with it is reviewed on an ongoing basis in accordance with the Company's risk management systems.

CONTINUOUS DISCLOSURE

The Company has established policies and procedures in order to comply with its continuous and periodic disclosure requirements under the Corporations Act 2001 (Commonwealth) and the ASX Listing Rules. The Board has adopted a formal Continuous Disclosure Policy, a summary of which is available from the corporate governance section of the Company's website at www.maynepharma.com. The Continuous Disclosure Policy was last reviewed by the Board on 13 September 2011.

The Company Secretary has primary responsibility for the disclosure of material information to ASIC and ASX and maintains a procedural methodology for disclosure, as well as for record keeping.

The Company's Continuous Disclosure Policy requires all management to notify the Chief Executive Officer, or the Company Secretary in his absence, of any potentially material information as soon as practicable. The Policy also sets out what renders information material.

The Board reviews the Company's compliance with this policy on an ongoing basis and will update it from time to time, if necessary.

SHAREHOLDER COMMUNICATIONS

The Board's formal policy on communicating with shareholders, its Communications Policy, is available from the corporate governance section of the Company's website and supplements the Company's Continuous Disclosure Policy.

The aim of the Communications Policy is to make known Mayne Pharma's methods for disclosure to shareholders and the general public. The Policy details the steps between disclosure to ASIC and ASX and communication to shareholders, with the Company's website playing an important role in Mayne Pharma's communications strategy.

The Board reviews this policy and compliance with it on an ongoing basis. The policy was last reviewed on 13 September 2011.

CONDUCT AND ETHICS

The Mayne Pharma Code of Conduct was last revised on 31 August 2011. The Code covers a broad range of issues and refers to those practices necessary to maintain confidence in the Company's integrity, including procedures in relation to:

- compliance with the law;
- business and financial records;
- occupational health and safety;
- conduct within and outside the workplace;
- confidentiality and use of information;
- conflict of interest;
- equal opportunity;
- whistle-blowing; and
- bribery and corruption.

The Code directs individuals to report any contraventions of the Code to their superior or the Chief Executive Officer.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	NOTE	CONSOLIDATED 2011 $'000	2010 $'000
Continuing operations			
Sale of goods		45,700	34,371
Royalties revenue		1,333	1,048
Other revenue	4	3,068	1,294
Revenue		50,101	36,713
Cost of sales		(26,861)	(17,920)
Inventory revaluation on acquisition		-	(333)
Gross profit		23,240	18,460
Other income	5	-	331
Other expenses	6	(799)	-
Research and development expenses		(5,974)	(5,053)
Distribution expenses		(614)	(344)
Marketing expenses		(709)	(131)
Regulatory affairs expenses		(641)	(260)
Share-based payments		-	(1,002)
Amortisation expenses		(6,098)	(5,318)
Administration expenses		(6,771)	(4,252)
Finance costs	6	(1,812)	(1,480)
Acquisition costs		-	(346)
Restructure and redundancy costs		(1,005)	-
Inventory write down		(1,115)	-
Reduction in earn-out liability		794	-
(Loss)/profit before income tax		(1,504)	605
Income tax benefit	8	3,183	2,648
Net profit from continuing operations after income tax		1,679	3,253
Other comprehensive income for the period, net of tax		-	-
Total comprehensive income for the period attributable to owners of the parent		1,679	3,253
Earnings per share:			
Basic	9	1.12 cents	2.64 cents
Diluted	9	1.10 cents	2.55 cents

The Consolidated Statement of Comprehensive Income is to be read in conjunction with the accompanying notes to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	NOTE	CONSOLIDATED 2011 $'000	2010 $'000
Current assets			
Cash and cash equivalents	23	5,807	19,709
Trade and other receivables	10	5,697	5,999
Inventories	11	6,423	6,499
Income tax receivable		630	-
Other current assets	12	281	321
Total current assets		18,838	32,528
Non-current assets			
Property, plant and equipment	13	21,457	21,047
Deferred tax assets	8	5,199	3,347
Intangible assets and goodwill	14	8,183	14,226
Total non-current assets		34,839	38,620
Total assets		53,677	71,148
Current liabilities			
Trade and other payables	15	3,848	3,927
Interest-bearing loans and borrowings	16	2,339	7,587
Income tax payable		-	2,586
Other financial liabilities	17	5,837	6,549
Provisions	18	2,915	2,518
Total current liabilities		14,939	23,167
Non-current liabilities			
Interest-bearing loans and borrowings	16	-	1,027
Other financial liabilities	17	9,283	14,392
Deferred tax liabilities	8	4,478	5,549
Provisions	18	803	1,464
Total non-current liabilities		14,564	22,432
Total liabilities		29,503	45,599
Net assets		24,174	25,549
Equity			
Contributed equity	19	31,870	29,649
Reserves	20	960	1,714
Accumulated losses	21	(8,656)	(5,814)
Total equity		24,174	25,549

The Consolidated Statement of Financial Position is to be read in conjunction with the accompanying notes to the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

	NOTE	CONSOLIDATED 2011 $'000	2010 $'000
Cash flows from operating activities			
Cash receipts from customers		52,441	38,184
Cash payments for research and development expenditure		(6,482)	(5,345)
Cash paid to suppliers and employees		(39,000)	(22,367)
Interest paid		264	206
Interest received		(220)	(348)
Tax paid		(2,917)	(39)
Net cash from operating activities	23	4,086	10,291
Cash flows from investing activities			
Payments for plant and equipment		(2,063)	(399)
Payments for acquisition of subsidiaries		-	(18,384)
Payments for acquisition of operating licenses		(41)	-
Net cash used in investing activities		(2,104)	(18,783)
Cash flows from financing activities			
Proceeds from issues of shares		1,467	14,161
Payment of share issue costs		-	(750)
Proceeds from borrowings		-	10,722
Repayment of borrowings		(5,057)	(2,739)
Dividends paid		(4,521)	-
Payment of earn-out liability		(6,556)	(1,095)
Net cash (used in)/from financing activities		(14,667)	20,299
Net (decrease)/increase in cash and cash equivalents		(12,685)	11,807
Cash and cash equivalents at the beginning of the period		19,709	7,937
Effect of exchange rate fluctuations on cash held		(1,217)	(35)
Cash and cash equivalents at the end of the period	23	5,807	19,709

The Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes to the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

	CONTRIBUTED EQUITY $'000	RESERVES $'000	ACCUMULATED LOSSES $'000	TOTAL EQUITY $'000
Balance at 1 July 2009	15,869	902	(9,067)	7,704
Profit for the period	-	-	3,253	3,253
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	3,253	3,253
Transactions with owners in their capacity as owners				
Shares issued	14,161	-	-	14,161
Share issue costs	(571)	-	-	(571)
Share options exercised	190	(190)	-	-
Share options issued	-	1,002	-	1,002
Balance at 30 June 2010	29,649	1,714	(5,814)	25,549
Balance at 1 July 2010	29,649	1,714	(5,814)	25,549
Profit for the period	-	-	1,679	1,679
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	1,679	1,679
Transactions with owners in their capacity as owners				
Shares issued	1,467	-	-	1,467
Share options exercised	754	(754)	-	-
Dividends paid	-	-	(4,521)	(4,521)
Balance at 30 June 2011	31,870	960	(8,656)	24,174

The Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Mayne Pharma Group Limited ('Company') (formerly Halcygen Pharmaceuticals Limited) is a company limited by shares incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange. The financial report for the year ended 30 June 2011 was authorised for issue by the directors on 13 September 2011.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

A. Basis of preparation

The Financial Statements are a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis except for forward exchange contracts which have been measured at mark to market valuation.

The financial report is presented in Australian dollars.

B. Compliance with IFRS

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

C. New accounting standards and interpretations

Accounting Standards and Interpretations issued and adopted in this report applicable to the company:

From 1 July 2010 the Group has adopted the following standards and interpretations, mandatory for annual reports beginning on or after 1 July 2010. Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Group.

- AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project, effective 1 January 2010.
- AASB 2010-3: Amendments to Australian Accounting Standards arising from the Annual Improvements Project, effective 1 July 2010

Accounting Standards and Interpretations issued but not yet effective applicable to the company:

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the year ended 30 June 2011 are outlined below:

AASB 9 - Financial Instruments

Application date of standard:	1 January 2013
Application date for Group:	1 July 2013
Impact on financial report:	The Group has assessed the impact of the changes and expects them to have minimal effect on the Group.

Summary

AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement).

(a) These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below. Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria.

(b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.

(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

AASB 124 (Revised) - Related Party Disclosures (December 2009)

Application date of standard: 1 January 2011

Application date for Group: 1 July 2011

Impact on financial report: There will be minimal impact on the Group.

Summary

The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:

(a) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other;
(b) entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and
(c) the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.

AASB 1053 - Application of Tiers of Australian Accounting Standards

Application date of standard: 1 July 2013

Application date for Group: 1 July 2013

Impact on financial report: The Group has assessed the impact of the changes and will comply with the Tier 1 requirements. The changes will only have minimal impact.

Summary

This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

(a) Tier 1: Australian Accounting Standards; and
(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

The following entities apply Tier 1 requirements in preparing general purpose financial statements:

(a) for-profit entities in the private sector that have public accountability (as defined in this Standard); and
(b) the Australian Government and State, Territory and Local Governments.

The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:

(a) for-profit private sector entities that do not have public accountability;
(b) all not-for-profit private sector entities; and
(c) public sector entities other than the Australian Government and State, Territory and Local Governments.

AASB 1054 - Australian Additional Disclosures

Application date of standard: 1 July 2011

Application date for Group: 1 July 2011

Impact on financial report: The Group will amend disclosures in accordance with the standard.

Summary

This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB.

This standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas:

(a) Compliance with Australian Accounting Standards
(b) The statutory basis or reporting framework for financial statements
(c) Whether the financial statements are general purpose or special purpose
(d) Audit fees
(e) Imputation credits

AASB 2009-11 - Amendments to Australian Accounting Standards arising from AASB 9 [AASBs 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]

Application date of standard: 1 January 2013

Application date for Group: 1 July 2013

Impact on financial report: The Group has yet to fully assess the impact of the changes.

Summary

These amendments arise from the issuance of AASB 9 Financial Instruments that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 Financial Instruments: Recognition and Measurement. This standard will be applied when AASB 9 is applied.

AASB 2010-4 - Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASBs 1, 7, 101, 134 and Interpretation 13]

Application date of standard: 1 January 2011

Application date for Group: 1 July 2011

Impact on financial report: The Group does not believe these changes will have significant impact on the financial statements.

Summary

The project emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of the risks associated with financial instruments.

It clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The standard provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions. The standard also clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

AASB 2010-5 - Amendments to Australian Accounting Standards [AASBs 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112,115, 127, 132 & 1042]

Application date of standard: 1 January 2011

Application date for Group: 1 July 2011

Impact on financial report: The Group does not believe these changes will have significant impact.

Summary

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.

These amendments have no major impact on the requirements of the amended pronouncements.

AASB 2011-1 - Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project [AASBs 1, 5, 101, 107, 108, 121, 128, 132, 134, Interpretation 2, Interpretation 112, Interpretation 113]

Application date of standard: 1 July 2011

Application date for Group: 1 July 2011

Impact on financial report: Minimal effect on the Group is expected.

Summary

This standard amends many Australian Accounting Standards, removing the disclosures which have been relocated to AASB 1054.

IFRS 10 - Consolidated Financial Statements

Application date of standard: 1 January 2013

Application date for Group: 1 July 2013

Impact on financial report: The Group has yet to fully assess the impact of the changes but expects them to have minimal impact on the Group.

Summary

IFRS 10 establishes a new control model that applies to all entities. It replaces parts of IAS 27 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities.

The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.

IFRS 12 - Disclosure of Interests in Other Entities

Application date of standard: 1 January 2013

Application date for Group: 1 July 2013

Impact on financial report: The Group has yet to fully assess the impact of the changes but expects them to have minimal impact on the Group.

Summary

IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

IFRS 13 - Fair Value Measurement

Application date of standard: 1 January 2013

Application date for Group: 1 July 2013

Impact on financial report: The Group has yet to fully assess the impact of the changes but expects them to have minimal impact on the Group.

Summary

IFRS 13 establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under IFRS when fair value is required or permitted by IFRS. Application of this definition may result in different fair values being determined for the relevant assets.

IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

IAS 19 – Employee Benefits

Application date of standard: 1 January 2013

Application date for Group: 1 July 2013

Impact on financial report: The Group has yet to fully assess the impact of the changes but expects them to have minimal impact on the Group.

Summary

IAS19 includes the following key features:

- Entities recognise changes in the value of plan assets and changes in the post-employment benefit obligations in the period in which they occur. Similarly, entities will recognise past service costs in the period of the related plan amendment. Hence, the 'corridor method' would be removed.

- Entities will present service cost and net interest income (expense) in profit or loss, whilst the effect of re-measurements is recorded in OCI. Net interest income (expense) is based on the net asset or liability rather than gross.

- The characteristics, risks arising and amounts recognised in the financial statements from defined benefit plans will be disclosed. There are also improved disclosure requirements for participation in multi-employer plans.

- The distinction between long-term and short-term benefits is based on when an employee is expected to receive the benefit rather than when the employee becomes entitled to it.

D. Basis of consolidation

Investments in subsidiaries held by the Group are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. The consolidated financial statements comprise the financial statements of Mayne Pharma Group Limited and its controlled entities (collectively the "Group"). The financial statements of the subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra group transactions have been eliminated in full. Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration is goodwill or a discount on acquisition.

E. Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquire and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree.

For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139; *Financial Instruments Recognition and Measurement* in profit or loss.

F. Foreign currency translation

Functional and presentation currency

Both the functional and presentation currency of Mayne Pharma Group Limited and its controlled entities is Australian dollars ($).

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date.

G. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

H. Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Group will not be able to collect the debt. Financial difficulties of the debtors and default payments of debts more than 90 days overdue are considered objective evidence of impairment.

I. Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – purchase cost on a first-in, first-out basis; and

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

J. Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Land and buildings are measured at cost less accumulated depreciation on buildings and less any impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Land	Not depreciated
Buildings	Over 40 years
Plant and equipment	Between 1.5 and 20 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Consolidated Statement of Comprehensive Income.

K. Goodwill and intangibles

Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following its initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised.

Goodwill is reviewed for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than an operating segment in accordance with AASB 8 Operating Segments.

Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortised over their useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

The Group's intangible assets other than goodwill (ie customer contracts, relationships and intellectual property) have been assessed as having finite useful lives and as such are amortised on a diminishing value basis over their useful lives. The assets' residual values, useful lives and bases of amortisation are reviewed annually and adjusted if appropriate.

L. Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or asset and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the lease item are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

M. Trade and other payables

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

N. Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date. The accounting policy of subsequent measurement of interest-bearing loans and borrowings is on amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowing costs

Borrowing costs directly attributable to a business acquisition are capitalised and are amortised over the life of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

O. Earn-out liabilities

Recognition and derecognition

Earn-out liabilities of the Group are initially recognised on the consolidated statement of financial position as part of the business combination contract at fair value. Financial liabilities are derecognised when they are extinguished.

Subsequent measurement

After initial recognition, earn-out liabilities are recognised at amortised cost using the effective interest method and are remeasured each reporting period. Movements in the liability from these changes are reported in the consolidated statement of comprehensive income.

P. Provisions and employee benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability.

Employee leave benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Q. Share-based payment transactions

The Group provides benefits to its employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

In the event that an employee leaves the Group prior to the vesting of any share-based payment previously granted to the employee, the share-based payment will be forfeited. Where an employee leaves the Group subsequent to the vesting but prior to the expiry of share-based payments granted, the Board has absolute discretion to determine whether or not such share-based payments will lapse. In the event that the Company's Employee Share Option Plan was cancelled, this would not affect the rights of employees in relation to previously issued share-based payments.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the vesting period.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (refer to Note 9).

R. Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

S. Operating segments

An operating segment is a component of the Group:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group);
- whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team – which is used in assessing performance and in determining the allocation of resources.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

The Group operates in two operating segments, being Mayne Pharma International Pty Ltd (MPI) and Mayne Pharma Group Limited (MPG), and one geographical segment, being Australia. The MPI segment provides optimisation and delivery of oral dosage form drugs. The MPG segment's main activity, in addition to the provision of corporate activities, is the commercialisation and development of a new product, SUBACAP®.

T. Revenue recognition

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

Royalties revenue

Royalties arising from the manufacturing rights are recognised when earned in accordance with the substance of the agreement.

Research and development income

Research and development income is recognised when its recoverability can be regarded as assured when the specific milestones of the projects are met.

Interest revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest revenue over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

U. Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

Mayne Pharma Group Limited and its wholly-owned Australian controlled entities elected to form an income tax consolidated group from 31 October 2009.

The head entity, Mayne Pharma Group Limited and the controlled entities in the income tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the "separate taxpayer within group" approach in determining the appropriate amount of current taxes and deferred taxes to allocate to the members of the income tax consolidated group.

In addition to its own current and deferred tax amounts, Mayne Pharma Group Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the income tax consolidated group.

Assets or liabilities arising under the tax funding agreement with the income tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned income tax consolidation entities.

Other taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST recoverable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

Cash flows are included in the consolidated statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

V. Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, divided by the weighted average number of ordinary shares of the Company.

Diluted earnings per share is calculated as net profit attributable to members of the parent, divided by the weighted average number of ordinary shares of the Company, adjusted for the effect of all dilutive potential ordinary shares.

W. Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

X. Forward exchange contracts

The Group uses derivative financial instruments (forward currency contracts) to hedge its risks associated with foreign currency, commodity prices and interest rate fluctuations. These derivatives do not qualify for hedge accounting and mark to market valuation adjustments are recognised in profit or loss in income or expenses.

Y. Reclassification of comparatives within the Statement of Comprehensive Income

Various disclosures in the 2010 comparative period have been reclassified to reflect the current treatment and enable better comparison between periods:

1. Certain cost of sales, research and development, marketing and administrative expenses were reclassified to reflect changes in product costing methodology.

2. Certain cost of sales, distribution and marketing expenses were reclassified to reflect changes in treatment of occupancy costs.

3. Regulatory affairs costs have been removed from Administrative costs and shown separately on the face of the Consolidated Statement of Comprehensive Income.

NOTE 2 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash, short-term deposits, receivables, payables and bank loans.

The Group manages its exposure to key financial risks, including credit risk, interest rate risk, currency risk and liquidity risk in accordance with the Group's financial risk management framework. The objective of the framework is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange rates. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

Primary responsibility for identification and control of financial risks rests with the Board. The Board reviews and agrees policies for managing each of the risks identified below.

Risk exposures and responses

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's cash and short-term deposits. At balance date, the Group had the following financial assets and liabilities exposed to a change in variable interest rates:

	2011 $'000	2010 $'000
Cash at bank and in hand	5,713	19,627
Short-term deposits	94	82
Total exposure	5,807	19,709

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance date. At balance date, if interest rates had moved, as illustrated in the table below, with all other variables held constant, net loss and equity would have been affected as follows:

	NET PROFIT / (LOSS) HIGHER / (LOWER)		EQUITY HIGHER / (LOWER)	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
+1% (100 basis points)	41	138	41	138
-0.5% (50 basis points)	(20)	(69)	(20)	(69)

The movements are due to higher / lower interest revenue from cash balances and interest expense on interest-bearing loans.

Possible movements in interest rates were determined based on the Group's current credit rating and mix of cash and debt.

Foreign currency risk

The Group has significant transactional currency exposures arising from sales and purchases in currencies other than the functional currency.

Approximately 43% of the Group's revenues and 8% of the Group's costs are denominated in currencies other than the functional currency.

It is the Group's policy to enter into simple Forward Exchange Contracts or Participating Forward Exchange Contracts over a set percentage of the forecast net receipts of US dollars. The percentages used vary depending on the length of the forecast period (0-3 months and 4-6 months). The Group has not applied the hedge accounting rules and the mark-to-market valuation adjustment (2011: $58,000; 2010: nil) for the contracts in place at 30 June 2011 has been recognised as an expense in the Consolidated Statement of Comprehensive Income and in the Consolidated Statement of Financial Position as a current "Other Financial Liability".

The Group also holds assets and liabilities in United States dollars (USD), British pounds (GBP), Japanese yen (JPY) and Euro (EUR). The existence of both assets and liabilities denominated in USD provides a limited natural hedge against adverse currency movements.

At balance date the Group had the following exposures to foreign currency:

	USD $'000	GBP $'000	EUR $'000	JPY $'000
As at 30 June 2011				
Cash at bank	2,799	-	-	-
Trade and other receivables	1,306			499
Trade and other payables	(20)	(112)	(43)	-
Interest-bearing borrowings	(2,359)	-	-	-
Net exposure	1,726	(112)	(43)	499
As at 30 June 2010				
Cash at bank	6,245	-	-	-
Trade and other receivables	2,323	207	-	537
Trade and other payables	(397)	(5)	-	-
Interest-bearing borrowings	(8,755)	-	-	-
Net exposure	(584)	202	-	537

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the balance date.

At balance date, if foreign exchange rates had moved, as illustrated in the table below, with all other variables held constant, net profit/(loss) and equity would have been affected as follows:

	NET PROFIT / (LOSS) HIGHER / (LOWER)		EQUITY HIGHER / (LOWER)	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
AUD/USD +10%	(110)	38	-	
AUD/ JPY +10%	(32)	(34)	-	-
AUD/ GBP and EUR +10%	10	(13)	-	-
AUD/USD -5%	63	(21)	-	
AUD/JPY -5%	18	7	-	-
AUD/GBP and EUR -5%	(3)	6	-	-

The movements are due to foreign currency gains or losses as a result of changes in the balances of cash, borrowings, and the net of trade receivables and payables.

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of the financial assets.

The Group does not hold any credit derivatives to offset its credit exposure. The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

Management of credit risk:

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation.

Approximately 39% of the Group's 2011 revenue is derived from the largest customer and 12% of revenue is derived from the next largest customer. Both of these customers were operating within agreed trading terms at the end of the 2011 period.

The Group believes that there is no credit risk on the above key customer concentration as there has never been any default in collectability.

The collectability of debts is assessed on an ongoing basis, and an allowance for doubtful debts is made where there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified. Receivables are monitored on an ongoing basis and the incidence of bad debt write off has been extremely low.

Financial assets included on the Consolidated Statement of Financial Position that potentially subject the Group to concentration of credit risk consist principally of cash and cash equivalents and trade receivables. The Group minimises this concentration of risk by placing its cash and cash equivalents with financial institutions that maintain superior independent credit ratings in order to limit the degree of credit exposure. The maximum exposures to credit risk as at 30 June 2011 in relation to each class of recognised financial assets is the carrying amount of those assets, as indicated in the Consolidated Statement of Financial Position.

Credit quality of financial assets:

	2011 $'000	2010 $'000
Cash and cash equivalents[1]	5,807	19,709
Trade and other receivables[2]	5,697	5,999
	11,504	25,708

1. Minimum of S&P AA rated counterparty with which deposits are held.
2. At period end 2011 Trade debtors comprise $5,028,000 of the total $5,697,000 with 94% within trading terms.

Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet its obligations to repay its financial liabilities as and when they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and cash and short-term deposits sufficient to meet the Group's current cash requirements.

The Board manages liquidity risk by monitoring monthly, the total cash inflows and outflows expected forecast on a rolling 12-month basis.

The following table discloses the remaining contractual maturities for the Group's financial assets and liabilities based on undiscounted cash flows. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract.

	LESS THAN 6 MONTHS $'000	6 TO 12 MONTHS $'000	1 TO 5 YEARS $'000	TOTAL $'000
30 June 2011				
Liquid financial assets				
Cash and cash equivalents	5,807	-	-	5,807
Trade and other receivables	5,697	-	-	5,697
	11,504	-	-	11,504
Financial liabilities				
Trade and other payables	(3,848)	-	-	(3,848)
Interest-bearing loans and borrowings	(2,339)	-	-	(2,339)
Other financial liabilities	-	(6,072)	(11,683)	(17,755)
	(6,187)	(6,072)	(11,683)	(23,942)
Net inflow/(outflow)	5,317	(6,072)	(11,683)	(12,438)

	LESS THAN 6 MONTHS $'000	6 TO 12 MONTHS $'000	1 TO 5 YEARS $'000	TOTAL $'000
30 June 2010				
Liquid financial assets				
Cash and cash equivalents	19,709	-	-	19,709
Trade and other receivables	5,999	-	-	5,999
	25,708	-	-	25,708
Financial liabilities				
Trade and other payables	(3,927)	-	-	(3,927)
Interest-bearing loans and borrowings	(3,124)	(4,789)	(1,182)	(9,095)
Other financial liabilities	-	(6,815)	(18,256)	(25,071)
	(7,051)	(11,604)	(19,438)	(38,093)
Net inflow/(outflow)	18,657	(11,604)	(19,438)	(12,385)

NOTE 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Significant accounting judgements

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Taxation

The Group's accounting policy for taxation requires management's judgement in assessing whether deferred tax assets are recognised in the Consolidated Statement of Financial Position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future revenues, operating costs, capital expenditure and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of other tax losses and temporary differences not yet recognised.

Significant accounting estimates and assumptions

Deferred consideration arising from a business combination

The Group has recognised a liability to the former owners of Mayne Pharma International Pty Ltd representing deferred consideration payable over the period to 31 December 2015. The earn-out liability has been determined based on contracted royalty rates payable on expected future cash flows earned on certain products in calendar years across different geographic markets. The estimation of the cash flows over a significant period, combined with the impact of currency movements and interest rates may result in substantial movements in the value of the liability recognised between reporting periods. The cash flows, assumed discount rate and forecast exchange rates are reviewed every six months to ensure the most accurate fair value of the liability is reported. Movements in the liability from changes in these assumptions and forecasts are reported in the consolidated statement of comprehensive income.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black Scholes option pricing model, with the assumptions detailed in Note 19. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Restoration provision

A provision has been made for the present value of anticipated costs for future restoration of the Salisbury site. The calculation of this provision requires assumptions such as application of environmental legislation, timing of restoration and cost estimates. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties and lease terms. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

The estimation of the useful lives of intangible assets has been based on the assets' contractual lives for the expected period of the future cash flows. In addition, the valuation assumptions used are assessed at least annually and considered against the useful life and adjustments to useful lives are made when considered necessary.

NOTE 4 – OTHER REVENUE

	2011 $'000	2010 $'000
Research and development income	2,655	1,057
Interest	264	206
Other revenue	149	31
Total other revenue	3,068	1,294

NOTE 5 – OTHER INCOME

	2011 $'000	2010 '$000
Net foreign exchange gains	-	331

NOTE 6 – OTHER EXPENSES

	2011 $'000	2010 $'000
Depreciation included in the consolidated statement of comprehensive income	1,653	1,294
Employee benefits expense:[1]		
Wages and salaries	11,825	6,978
Defined contribution superannuation expense	1,189	703
Other employee benefits expense	3,581	2,295
	16,595	9,976
Finance costs:		
Bank loans and overdrafts	220	423
Earn-out liability	1,471	870
Amortisation of borrowing costs	121	187
	1,812	1,480
Minimum lease payments – operating lease	49	21
Statutory and listing expenses	143	130
Net foreign exchange losses	741	-
Loss on forward exchange contracts	58	-
	799	-

1. Employee benefit expenses are included in administrative expenses, research and development expenses and cost of sales.

NOTE 7 – AUDITOR'S REMUNERATION

	2011 $	2010 $
Auditor of the Company		
Audit and review of financial statements	212,500	250,000
Taxation services	125,910	25,144
Other services	28,750	23,550
	367,160	298,694

NOTE 8 – INCOME TAX

A. The major components of income tax benefit / (expense) are:

	2011 $'000	2010 $'000
Current income tax		
Current income tax benefit / (expense)	(201)	(618)
Adjustments in respect of current income tax of previous years	461	-
Deferred income tax		
Relating to origination and reversal of temporary differences	2,923	3,266
Income tax benefit reported in the consolidated statement of comprehensive income	3,183	2,648

B. Numerical reconciliation between aggregate tax expense recognised in the consolidated statement of comprehensive income and tax expense calculated per the statutory income tax rate

	2011 $'000	2010 $'000
The prima facie tax on operating loss differs from the income tax provided in the accounts as follows:		
(Loss)/profit before income tax	(1,504)	605
Prima facie tax benefit/(expense) at 30%	451	(182)
Effect of R&D tax concession	440	229
Share-based payments	-	(301)
Adjustment relating to earn-out liability	217	(261)
Overprovision in respect of prior years	461	-
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income	(2)	(104)
Deferred tax assets not previously brought to account [1]	979	1,159
Restatement of deferred tax balances upon entry into tax consolidation	637	2,108
Income tax benefit	3,183	2,648

1. Carried forward losses available at the start of the 2011 year.

C. Recognised deferred tax assets and liabilities

	2011 $'000	2010 $'000
Deferred tax assets		
Intangible assets	2,118	733
Payables	15	36
Interest-bearing loans and borrowings	-	85
Provisions	1,123	2,173
Inventory	305	-
Equity raising costs	-	180
Carried forward tax losses	860	-
Earn-out liability	414	-
Other	364	140
	5,199	3,347

The deferred tax assets above were recognised in 2011 and 2010 as the Group has future taxable profits.

Deferred tax liabilities		
Other receivables/prepayments	30	34
Inventory	-	11
Property, plant and equipment	2,266	2,674
Intangible assets	1,869	2,830
Unrealised foreign currency gain	312	-
Other	1	-
	4,478	5,549

The changes in the amount recognised in the Consolidated Statement of Financial Position as stated above represent the amount of deferred tax movement recognised in the Consolidated Statement of Comprehensive Income.

D. Tax consolidation

Members of the tax consolidated group and the tax sharing arrangement

Mayne Pharma Group Limited and its 100%-owned Australian resident subsidiaries formed an income tax consolidated group with effect from 31 October 2009. Mayne Pharma Group Limited is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

Tax effect accounting by members of the tax consolidated group

Measurement method adopted under AASB Interpretation 1052 Tax Consolidation Accounting.

The head entity and the controlled entities in the income tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the "separate taxpayer within group" approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the income tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes.

In addition to its own current and deferred tax amounts, the head entity also recognises current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the income tax consolidated group.

Nature of tax funding agreement

The tax funding agreement requires payments to / from the head entity to be recognised via an inter-entity receivable (payable) which is at call. To the extent that there is a difference between the amount charged under the tax funding agreement and the allocation under AASB Interpretation 1052, the head entity accounts for these as equity transactions with the subsidiary.

The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

NOTE 9 – EARNINGS PER SHARE

	2011 $'000	2010 $'000
For basic earnings per share		
Net profit	1,679	3,253
For diluted earnings per share		
Net profit	1,679	3,253

	2011 '000	2010 '000
Weighted average number of ordinary shares for basic earnings / (loss) per share	150,385	123,209
Effect of dilution:		
Share options	2,840	4,139
Weighted average number of ordinary shares adjusted for the effect of dilution	153,225	127,348

The calculation of weighted average number of ordinary shares adjusted for the effect of dilution does not include the following options which could potentially dilute basic earnings per share in the future, but were not dilutive in the periods presented:

	2011	2010
Number of potential ordinary shares	-	3,250,000

Options

Options over ordinary shares are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent that they are dilutive in accordance with the relevant accounting standard. These options have not been included in the determination of basic earnings per share.

On 25 July 2011, 1,500,000 options over ordinary shares were issued to a member of the Key Management Personnel as part of his remuneration (refer Note 19 for details of the issue). There have been no other transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding at the end of the reporting period.

NOTE 10 – TRADE AND OTHER RECEIVABLES

	2011 $'000	2010 $'000
Current		
Trade receivables	5,028	7,778
Provision for impairment	(23)	-
Provision for rebates	-	(2,657)
Other receivables	692	879
	5,697	5,999

Allowance for impairment loss

At 30 June 2011, the ageing analysis of trade receivables is as follows:

	0-30 DAYS $'000	31-60 DAYS $'000	61-90 DAYS $'000	+91 DAYS $'000	TOTAL $'000
Trade receivables	4,705	160	141	22	5,028

Trade receivables are non-interest bearing and are generally on 30- to 60-day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. As at year end, there was one receivable that was past due, considered impaired and full provision was made.

Other receivables include amounts outstanding for goods and services tax (GST). These amounts are non-interest bearing and have repayment terms applicable under the relevant government authority.

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

NOTE 11 – INVENTORIES

	2011 $'000	2010 $'000
Raw materials and stores	3,253	1,935
Work in progress	1,270	1,650
Finished goods	3,015	2,914
Provision for write down	(1,115)	-
	6,423	6,499

A provision for the write down of the full value of selected Doryx® inventory has been made in the event manufactured batches reach expiry before regulatory approval is granted.

NOTE 12 – OTHER ASSETS

	2011 $'000	2010 $'000
Current		
Prepayments	281	321

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

	LAND[1] $'000	BUILDINGS[1] $'000	PLANT AND EQUIPMENT $'000	CAPITAL UNDER CONSTRUCTION $'000	TOTAL $'000
Year ended 30 June 2011					
Balance at beginning of year net of accumulated depreciation	4,540	7,762	8,403	342	21,047
Additions	-	122	1,065	876	2,063
Depreciation charge for year	-	(206)	(1,447)	-	(1,653)
Balance at end of year net of accumulated depreciation	4,540	7,678	8,021	1,218	21,457
At 30 June 2011					
At cost	4,540	8,250	10,449	1,218	24,457
Accumulated depreciation	-	(572)	(2,428)	-	(3,000)
Net carrying amount	4,540	7,678	8,021	1,218	21,457
Year ended 30 June 2010					
Balance at beginning of year net of accumulated depreciation	-	-	23	-	23
Acquisition of subsidiary	4,540	8,110	8,969	299	21,918
Additions	-	17	338	43	398
Depreciation charge for year	-	(365)	(927)	-	(1,292)
Balance at end of year net of accumulated depreciation	4,540	7,762	8,403	342	21,047
At 30 June 2010					
At cost	4,540	8,127	9,384	342	22,393
Accumulated depreciation	-	(365)	(981)	-	(1,346)
Net carrying amount	4,540	7,762	8,403	342	21,047

1. A first registered mortgage over property situated at 1538 Main North Rd, Salisbury South, South Australia is held by the Group's primary lender.

NOTE 14 – INTANGIBLE ASSETS AND GOODWILL

	2011 $'000	2010 $'000
Customer contracts, relationships and intellectual property	19,153	19,153
Less accumulated amortisation	(11,361)	(5,318)
Goodwill on acquisition	391	391
	8,183	14,226

Customer contracts, relationships and intellectual property

Following the business combination in October 2009, the Consolidated Entity recognised $19,153,000 in relation to customer contracts, relationships and intellectual property. The majority of the customer contracts' initial carrying value of $11,443,000 will be amortised by 31 December 2011. This value was determined in relation to expected future cash flows relating to customer contracts acquired on the acquisition of Mayne Pharma International Pty Ltd.

The Consolidated Entity also recognised a total of $6,067,000 in relation to customer relationships that are being amortised over six years through to the period ending 30 June 2015. This value was determined in relation to expected future cash flows relating to customer relationships acquired on the acquisition of Mayne Pharma International Pty Ltd.

The balance of $1,642,000 represents the value attributed to an intellectual property royalty arrangement that is being amortised over six years through to 30 June 2015. Cash flows were estimated based on the sales levels of products to existing customer relationships and costs of production, raw materials and overhead attributable to those products. A discount rate of 17.5% was applied following a corporate tax rate of 30% and a 7% contributory asset charge.

These assets are carried at cost less accumulated amortisation and any accumulated impairment losses. These intangible assets have been assessed as having finite useful lives and are amortised over their useful lives on a diminishing value basis. The amortisation charge has been recognised in the consolidated statement of comprehensive income in the line item "Amortisation expense". If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

There were indicators of impairment in relation to these intangible assets during the year.

Goodwill

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

Goodwill has been allocated to the Mayne Pharma International Pty Ltd cash generating unit (CGU). The recoverable amount of the CGU is determined based on the value in use calculation using cash flow projections based on financial budgets approved by management covering a five-year period.

The pre-tax, risk adjusted discount rate applied to these asset specific cash flows projections is 17%.

The Directors have used the following key assumptions in determining the value in use calculations:

- Gross margin – the basis used to determine the value assigned to the budgeted gross margin is the average gross margin achieved in the year immediately before the budgeted year adjusted for the budgeted growth;
- Budgeted overheads – the basis used to determine the value assigned to the budgeted overheads is the average overhead achieved in the year immediately before the budgeted year adjusted for the budgeted increase;
- Discount rates – Discount rates reflect management's estimate of time value of money and the risks specific to the CGU. In determining appropriate discount rate, regard has been given to the weighted average cost of capital of the entity as a whole and adjusted for business risk specific to the CGU;
- Growth rate estimate – the basis used reflects management's estimates, determined by future forecasts in sales generation methods and by growth rates achieved within previous periods.

Sensitivity to changes in assumptions

Management believe that based on currently available information there is no reasonable change to any of the above key assumptions, resulting in the carrying value of the CGU to materially exceed its recoverable amount.

NOTE 15 – TRADE AND OTHER PAYABLES

	2011 $'000	2010 $'000
Current		
Trade payables	2,142	2,227
Other payables	1,706	1,700
	3,848	3,927

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

Information regarding liquidity risk exposure is set out in Note 2.

NOTE 16 – INTEREST-BEARING LOANS AND BORROWINGS

	2011 $'000	2010 $'000
Current		
Bank loan 5.05% (secured[1])	2,339	7,587
Non-current		
Bank loan 5.05% (secured[1])	-	1,167
Less capitalised borrowing costs	-	(140)
	-	1,027

The carrying amount of the Group's current and non-current borrowings approximate their fair value.

During the year ended 30 June 2011 the Group's lender waived a covenant in relation to an interest cover ratio due to a technical breach of the covenant. There were no defaults or breaches on any loans during the year ended 30 June 2010.

1. A Registered Mortgage Debenture over the Group's assets including goodwill has been provided to the Group's primary lender. A first registered mortgage over property situated at 1538 Main North Rd, Salisbury South, South Australia is also held by the Group's primary lender.

NOTE 17 – OTHER FINANCIAL LIABILITIES

	2011 $'000	2010 $'000
Current		
Earn-out liability	5,779	6,549
Foreign Exchange Contract liability	58	-
	5,837	6,549
Non-current		
Earn-out liability	9,283	14,392

The Consolidated Entity has recognised a total of $15,062,247 (2010: $20,940,607) in relation to the earn-out liability incurred as part consideration on the acquisition of Mayne Pharma International Pty Ltd on 30 October 2009. The amount payable to Hospira amounts to a maximum $41.6 million payable over a six-year period. The earn-out payment is based on the level of gross revenue recognised by Mayne Pharma International Pty Ltd in relation to existing products at the time of the acquisition greater than $40 million in a calendar year period and capped at $65 million in a calendar year period, with a maximum $7.8 million payable in the first two years to 31 December 2011 and $6.5 million for each of the subsequent four years.

The value of the earn-out has been determined in relation to expected future cash flows required to be paid on the earn-out utilising a discount rate of 8% and an assumed foreign exchange rate of US$1.00:A$1.05 for the balance of calendar year 2011 and US$1.00:A$1.00 for the balance of the earn-out period.

NOTE 18 – PROVISIONS

	2011 $'000	2010 $'000
Provision for employee entitlements		
Balance at beginning of year	3,382	96
Increase on acquisition of subsidiary	-	2,788
Net arising and utilised during the year	(226)	498
Balance at end of year	3,156	3,382
Provision for restoration		
Balance at beginning of year	600	-
Increase on acquisition of subsidiary	-	600
Net arising and utilised during the year	(38)	-
Balance at end of year	562	600
Current	2,915	2,518
Non-current	803	1,464
	3,718	3,982

NOTE 19 – CONTRIBUTED EQUITY

A. Movements in contributed equity

	2011 NUMBER	2010 NUMBER	2011 $'000	2010 $'000
Balance at beginning of year	148,178,700	76,099,000	29,649	15,869
Issued during the year				
Share placements	-	45,000,000	-	9,000
Share purchase plan	-	22,829,700	-	4,566
Options exercised	3,600,000	4,250,000	1,467	595
Transfer from employee equity benefits reserve on exercise of options	-	-	754	189
Share issue costs (net of tax)	-	-	-	(570)
Balance at end of year	151,778,700	148,178,700	31,870	29,649

Contributed equity is made up of two separate accounts of share capital and exercised options reserve.

B. Share options

	EXERCISE PRICE	EXPIRY DATE	BALANCE AT BEGINNING OF YEAR	GRANTED DURING THE YEAR	EXERCISED DURING THE YEAR	OTHER MOVEMENTS DURING THE YEAR[1]	BALANCE AT END OF YEAR	OPTIONS EXERCISABLE AT END OF YEAR
Year ended 30 June 2011			Number	Number	Number	Number	Number	Number
Unlisted options	$0.60	17/04/11	1,250,000	-	(625,000)	(625,000)	-	-
Unlisted options	$0.60	17/04/12	1,750,000	-	(875,000)	-	875,000	875,000
Unlisted options	$0.60	30/11/12	250,000	-	-	-	250,000	250,000
Unlisted options	$0.27	31/12/12	5,050,000	-	(2,100,000)	-	2,950,000	2,950,000
			8,300,000	-	(3,600,000)	(625,000)	4,075,000	4,075,000

1. Comprises the sale of 600,000 options and the lapse of 25,000 options.

1,500,000 options were issued to an executive under the ESOP on 25 July 2011 with an exercise price of $0.35 and an expiry date of 27 January 2016.

	EXERCISE PRICE	EXPIRY DATE	BALANCE AT BEGINNING OF YEAR	GRANTED DURING THE YEAR	EXERCISED DURING THE YEAR	OTHER MOVEMENTS DURING THE YEAR	BALANCE AT END OF YEAR	OPTIONS EXERCISABLE AT END OF YEAR
Year ended 30 June 2010			Number	Number	Number	Number	Number	Number
Unlisted options	$0.10	30/06/10	3,000,000	-	(3,000,000)	-	-	-
Unlisted options	$0.10	30/06/10	250,000	-	(250,000)	-	-	-
Unlisted options	$0.60	17/04/11	1,250,000	-	-	-	1,250,000	1,250,000
Unlisted options	$0.60	17/04/12	1,750,000	-	-	-	1,750,000	1,750,000
Unlisted options	$0.60	30/11/12	250,000	-	-	-	250,000	250,000
Unlisted options	$0.27	31/12/12	-	6,050,000	(1,000,000)	-	5,050,000	5,050,000
			6,500,000	6,050,000	(4,250,000)	-	8,300,000	8,300,000

During the year ended 30 June 2010 1,700,000 options were issued to employees of the Group in accordance with the Company's Employee Share Option Plan (ESOP). Refer to Note 26 for further information. A further 4,350,000 options were issued to Directors of the Company outside of the Company's ESOP during the year ended 30 June 2010. All share options granted during that year vested immediately. There were no vesting conditions as this option grant related in particular to the success of the acquisition of Mayne Pharma International Pty Ltd and it was the Board's intention to incentivise key management personnel and executives to achieve the target performance of the Group from the business combination transaction during the year and not based on total shareholders' return.

For share options granted during or since the end of the financial year the fair value of the options granted was determined using the Black-Scholes option pricing model (refer to Note 1(Q)). The following inputs were used in the valuations:

	OPTIONS ISSUED JULY 2011	OPTIONS ISSUED OCTOBER 2009
Number of options over shares	1,500,000	6,050,000
Black-Scholes model fair value	$0.102	$0.166
Share price at grant date	$0.35	$0.345
Exercise price	$0.35	$0.270
Expected volatility	60%	70%
Option life	4.51 years	1.9 years
Dividend yield	8.5%	-
Risk-free rate	4.51%	5.13%

The expected volatility was determined based on historical volatility of the Company and of similar companies, and with reference to the Company's stage of development.

C. Terms and conditions of contributed equity

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

D. Capital management

The primary objective of the Group in relation to capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 30 June 2011 and 30 June 2010.

Management monitors capital with reference to the net debt position. The Group includes within net debt, interest-bearing loans and borrowings, trade and other payables, less cash and cash equivalents. The Group's current policy is to keep the net debt position negative, such that cash and cash equivalents exceeds debt.

	2011 $'000	2010 $'000
Trade and other payables	3,848	3,927
Interest-bearing borrowings	2,339	8,614
Less cash and cash equivalents	(5,807)	(19,709)
Net debt	380	(7,168)

The net debt position excludes earn-out liabilities as they are funded from future gross revenue.

The Group is not subject to any externally imposed capital requirements.

NOTE 20 – RESERVES

Employee equity benefits reserve

The employee equity benefits reserve is used to record the value of share-based payments provided to employees, including key management personnel, as part of their remuneration.

	2011 $'000	2010 $'000
Balance at beginning of year	1,714	902
Issue of options to employees	-	1,002
Transfer to share capital on exercise of options	(754)	(190)
Balance at end of year	960	1,714

NOTE 21 – ACCUMULATED LOSSES

	2011 $'000	2010 $'000
Balance at the beginning of the year	(5,814)	(9,067)
Net profit after tax	1,679	3,253
Dividends paid	(4,521)	-
Balance at the end of the year	(8,656)	(5,814)

NOTE 22 – OPERATING SEGMENTS

The Consolidated Entity operates in two operating segments, being MPI and MPG and one geographical location, being Australia.

The accounting policies used by the Group's reporting segments internally are the same as those contained in Note 1 to the consolidated financial statements.

Major customers

Approximately 39% of the MPI segment's revenue is derived from the sale of a particular product to a major customer and 12% of total segment revenue is derived from the next largest customer. Consequently, the segment is currently largely dependent on the contribution from these two customers.

Inter segment revenues

R&D revenue of $1,040,000 (2009 $298,000) was charged by MPI to MPG for development activity on SUBACAP®. The MPI total revenue of $50,101,000 (2009 $36,568,000) and MPG other expenses of $6,128,000 (2009 $7,982,000) are both net of these revenues and expenses.

The Consolidated Entity reports the following information on the operations of its identified segments:

	MPI $'000	MPG $'000	TOTAL CONSOLIDATED $'000
Year ended 30 June 2011			
Sale of goods	45,700	-	45,700
Other revenue	4,401	-	4,401
Revenue	50,101	-	50,101
Cost of sales	(26,861)	-	(26,861)
Gross profit	23,240	-	23,240
Other income	-	1,093	1,093
Amortisation of intangible assets	(6,084)	-	(6,084)
Other expenses	(13,625)	(6,128)	(19,753)
Profit/(loss) before income tax	3,531	(5,035)	(1,504)
Income tax benefit	(103)	3,286	3,183
Net profit/(loss) for the period	3,428	(1,749)	1,679
Assets	51,784	1,893	53,677
Liabilities	11,306	18,197	29,503

	MPI $'000	MPG $'000	TOTAL CONSOLIDATED $'000
Year ended 30 June 2010			
Sale of goods	34,371	-	34,371
Other revenue	2,197	145	2,342
Revenue	36,568	145	36,713
Cost of sales	(18,794)	-	(18,794)
Inventory revaluation on acquisition	(333)	-	(333)
Gross profit	17,441	145	17,585
Other income	538	(207)	331
Amortisation of intangible assets	(5,318)	-	(5,318)
Other expenses	(4,012)	(7,982)	(11,994)
Profit/(loss) before income tax	8,649	(8,045)	605
Income tax benefit/(expense)	(570)	3,218	2,648
Net profit/(loss) for the period	8,080	(4,827)	3,253
Assets	63,985	7,164	71,149
Liabilities	15,299	30,301	45,600

NOTE 23 - NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

A. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and in banks and deposits at call.

Cash and cash equivalents at the end of the year as shown in the cash flow statement comprise the following:

	2011 $'000	2010 $'000
Cash at bank and in hand	5,713	19,627
Short-term deposits	94	82
	5,807	19,709

Cash at bank attracts floating interest at current market rates.

The short-term deposits are made for periods of up to three months, and earn interest at the respective short-term deposit rates.

B. Reconciliation of net loss after income tax to net cash used in operating activities

	2011 $'000	2010 $'000
Net profit after income tax	1,679	3,253
Adjustments for:		
Depreciation	1,653	1,292
Amortisation of intangibles and borrowing costs	6,205	5,505
Share options expensed	-	1,002
Capitalised interest	1,471	870
Decrease in earn-out liability	(794)	-
Acquisition costs written off classified as investing cash flows	-	346
Net foreign exchange differences	(64)	480
Changes in assets and liabilities		
Decrease in receivables	302	458
Decrease/(increase) in inventories	77	(1,486)
Decrease/(increase) in prepayments	40	(179)
(Increase)/decrease in deferred tax assets	(1,852)	(2,087)
(Decrease)/increase in creditors	(80)	942
Decrease)/increase in provisions	(264)	497
(Decrease) in current and deferred tax liabilities	(4,287)	(600)
(Decrease) in other financial liabilities	-	(2)
Net cash from operating activities	4,086	10,291

NOTE 24 – RELATED PARTY DISCLOSURES

A. Subsidiaries

The consolidated financial statements include the financial statements of Mayne Pharma Group Limited and the subsidiaries listed in the following table:

	COUNTRY OF INCORPORATION	% EQUITY INTEREST		INVESTMENT $'000	
		2011	2010	2011	2010
Mayne Pharma International Pty Ltd	Australia	100	100	39,205	39,205
Mayne Products Pty Ltd[1]	Australia	100	100	-	-
Mayne Pharma UK Limited[1]	United Kingdom	100	100	-	-
				39,205	39,205

1. Dormant subsidiaries

B. Ultimate parent

Mayne Pharma Group Limited is the ultimate parent entity.

C. Key management personnel

Details relating to KMP, including remuneration paid, are included in Note 25.

D. Transactions with related parties

The Company had no other transactions with related parties during the financial years ended 30 June 2011 or 30 June 2010.

Amounts owing to Directors, Director-related parties and other related parties at 30 June 2011 and 30 June 2010 were nil.

NOTE 25 – KEY MANAGEMENT PERSONNEL DISCLOSURES

A. Directors and other key management personnel

The Directors of Mayne Pharma Group Limited during the financial year were:

- Mr Roger Corbett AO – Chairman (appointed 17 November 2010)
- Dr Roger Aston – Executive Director and Chief Executive Officer
- Hon Ron Best – Non-Executive Director
- Mr Bruce Mathieson – Non-Executive Director
- Mr Ian Scholes – Non-Executive Director
- Mr Craig Bottomley – Executive Director and Chief Operating Officer (until 29 July 2010)

Other key management personnel consisted of:

- Mr Mark Cansdale – Chief Financial Officer and Company Secretary (from 27 January 2011)
- Mr Vince Caretti – General Manager, Operations
- Dr Angelo Morella – General Manager, Research and Innovation
- Mr Aaron Finlay – Chief Financial Officer and Company Secretary (until 27 January 2011)
- Ms Gina Greentree – Head of Marketing and Consumer Group (until 31 March 2011)
- Mr Peter Schembri – General Manager, Business Development and Scientific Affairs (until 6 June 2011)

B. Compensation of key management personnel

	2011 $	2010 $
Short-term employee benefits	1,805,094	1,331,630
Post-employment benefits	251,170	176,906
Long-term benefits	62,520	15,906
Share-based payments	-	952,049
Termination payments	191,446	-
	2,310,230	2,476,491

C. Equity instrument disclosures relating to key management personnel

Option holdings

The number of options over ordinary shares in the Company held during the financial year by each Director of Mayne Pharma Group Limited and other key management personnel of the Company, including their personally related parties, are set out below.

	HELD AT 30 JUNE 2009	GRANTED AS COMPEN-SATION	EXERCISED	OTHER CHANGES	HELD AT 30 JUNE 2010[1]	GRANTED AS COMPEN-SATION	EXERCISED/ OTHER CHANGES	FORFEITED	HELD AT 30 JUNE 2011[1]
Directors	Number	Number	Number	Number	Number	Number	Number	Number	Number
Mr R Corbett	-	-	-	-	-	-	-	-	-
Dr R Aston	1,250,000	1,900,000	-	-	3,150,000	-	(600,000)[2]	(25,000)	2,525,000
Hon R Best	1,000,000	350,000	(750,000)	-	600,000	-	(250,000)	-	350,000
Mr B Mathieson	250,000	350,000	-	-	600,000	-	-	-	600,000
Mr I Scholes	250,000	350,000	-	-	600,000	-	-	-	600,000
Mr C Bottomley	3,250,000	1,400,000	(1,000,000)	(2,500,000)	1,150,000	-	(1,150,000)	-	-
	6,000,000	4,350,000	(1,750,000)	(2,500,000)	6,100,000	-	(2,000,000)	(25,000)	4,075,000
Other key management personnel									
Mr M Cansdale	-	-	-	-	-	-	-	-	-
Mr V Caretti	-	-	-	-	-	-	-	-	-
Dr A Morella	-	-	-	-	-	-	-	-	-
Mr A Finlay	500,000	1,400,000	-	-	1,900,000	-	(1,900,000)[3]	-	-
Ms G Greentree	-	-	-	-	-	-	-	-	-
Mr P Schembri	-	-	-	-	-	-	-	-	-
	500,000	1,400,000	-	-	1,900,000	-	(1,900,000)	-	-
	6,500,000	5,750,000	(1,750,000)	(2,500,000)	8,000,000	-	(3,900,000)	(25,000)	4,075,000

1. All exercisable at 30 June.
2. Dr Aston sold 600,000 options that had vested to a third party.
3. Mr Finlay sold 250,000 options that had vested to a third party.

Movements in shares

The movement during the year in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each KMP including their related parties, is as follows:

	HELD AT 30 JUNE 2009	RECEIVED DURING THE YEAR ON EXERCISE OF OPTIONS	OTHER CHANGES DURING THE YEAR	HELD AT 30 JUNE 2010	RECEIVED DURING THE YEAR ON EXERCISE OF OPTIONS	OTHER CHANGES DURING THE YEAR	SALES	HELD AT 30 JUNE 2011
Directors	Number	Number	Number	Number	Number	Number	Number	Number
Mr R Corbett	-	-	-	-	-	1,676,319	-	1,676,319
Dr R Aston	9,571,000	-	1,000,000	10,571,000	-	-	(1,500,000)	9,071,000
Hon R Best	184,000	750,000	23,244	957,244	250,000	-	(250,000)	957,244
Mr B Mathieson	3,987,345	-	7,546,488	11,533,833	-	1,877,789	-	13,411,622
Mr I Scholes	50,000	-	261,622	311,622	-	-	-	311,622
Mr C Bottomley	2,280,000	1,000,000	-	3,280,000	1,150,000	-	(4,430,000)	-
	16,072,345	1,750,000	8,831,354	26,653,699	1,400,000	3,554,108	(6,180,000)	25,427,807
Other key management personnel								
Mr M Cansdale	-	-	-	-	-	12,141	-	12,141
Mr V Caretti	-	-	10,000	10,000	-	-	-	10,000
Mr A Morella	-	-	-	-	-	-	-	-
Mr A Finlay	1,000,000	-	-	1,000,000	1,650,000	-	(2,650,000)	-
Ms G Greentree	-	-	-	-	-	-	-	-
Mr P Schembri	-	-	30,000	30,000	-	-	(30,000)	-
	1,000,000	-	40,000	1,040,000	1,650,000	12,141	(2,680,000)	22,141
	17,072,345	1,750,000	8,871,354	27,693,699	3,050,000	3,566,249	(8,860,000)	25,449,948

NOTE 26 – SHARE-BASED PAYMENT PLANS

Recognised share-based payments expense

The expense recognised for employee services received during the year is shown in the table below:

	2011 $'000	2010 $'000
Expense arising from equity-settled share-based payment transactions	-	1,002

Employee share option plan (ESOP)

An employee share option plan is in place where directors and employees of the Company may be issued with options over the ordinary shares of Mayne Pharma Group Limited. Shareholders approved the plan at the AGM held on 28 October 2009. The options, issued for nil consideration, are issued in accordance with guidelines established by the Directors of Mayne Pharma Group Limited.

Each employee share option converts to one ordinary share in Mayne Pharma Group Limited upon exercise. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. No options were issued during the year ended 30 June 2011. The options granted during the year ended 30 June 2010 vested immediately.

	2011 NUMBER OF OPTIONS	2011 WEIGHTED AVERAGE EXERCISE PRICE $	2010 NUMBER OF OPTIONS	2010 WEIGHTED AVERAGE EXERCISE PRICE $
Balance at beginning of year	2,200,000	0.34	500,000	0.60
Granted during the year	-	-	1,700,000	0.27
Exercised during financial year	(1,950,000)	0.31	-	-
Forfeited during financial year	-	-	-	-
Other movements	(250,000)[1]	0.17	-	-
Balance at end of year	-	-	2,200,000	0.34

1. 250,000 options were sold to a third party.

A. ESOP option balance at beginning of financial year

	NUMBER	GRANT DATE	VESTING DATE	EXPIRY DATE	EXERCISE PRICE $
2011					
Issued 17 April 2007	250,000	17/04/07	17/04/07	17/04/11	0.60
Issued 17 April 2007	250,000	17/04/07	17/04/08	17/04/12	0.60
Issued 29 October 2009	1,700,000	29/10/09	29/10/09	31/12/12	0.27
	2,200,000				

B. Granted during financial year

No ESOP options were issued during the year ended 30 June 2011, however 1,500,000 options were issued to an executive on 25 July 2011.

C. Exercised during financial year

All of the ESOP options on issue at 1 July 2010 were exercised during the year. No ESOP options were exercised during the year ended 30 June 2010.

D. Forfeited during financial year

No ESOP options were forfeited during the years ended 30 June 2011 or 30 June 2010.

E. ESOP option balance at end of financial year

There were no ESOP options on issue at the end of the financial year.

NOTE 27 – PARENT ENTITY DISCLOSURES

Financial position

	2011 $'000	2010 $'000
Assets		
Current assets	7,730	6,763
Non-current assets	39,657	42,609
Total assets	47,387	49,372
Liabilities		
Current liabilities	8,698	16,749
Non-current liabilities	27,360	15,451
Total liabilities	36,058	32,200
Net assets	11,329	17,172
Equity		
Issued capital	31,871	29,649
Reserves	960	1,714
Accumulated losses	(21,502)	(14,191)
Total equity	11,329	17,172

Financial performance

	2011 $'000	2010 $'000
Loss for the year	(2,790)	(5,125)
Other comprehensive income	-	-
Total comprehensive income	(2,790)	(5,125)
Reconciliation to segment loss:		
Add back inter-company purchases	1,041	298
Total comprehensive income of MPG per Note 22	(1,749)	(4,827)

NOTE 28 – COMMITMENTS AND CONTINGENCIES

A. Commitments

Leasing commitments

The Company has entered into an operating lease on building office space for a one-year term, as well as equipment leases. Future minimum rentals payable under these operating leases are as follows:

	2011 $'000	2010 $'000
Within one year	242	243
After one year but not more than five years	208	358
Total minimum lease payments	450	601

Capital Commitments

The Group had contractual obligations for the purchase of capital equipment of $1,701,000 as at 30 June 2011 (2010: $nil), principally related to the development of the facilities at MPI for manufacture of SUBACAP® and other tablet manufacturing. These commitments are expected to be settled within 12 months from balance date.

B. Contingencies

The Company had no contingent liabilities as at 30 June 2011.

NOTE 29 – DIVIDENDS

Dividends recognised in the current year by the Company are:

	CENTS PER SHARE	TOTAL AMOUNT $'000	FRANKED/ UNFRANKED	DATE OF PAYMENT
2011				
Special 2011 ordinary	1.0	1,516	100% Franked	25 March 2011
Final 2010 ordinary	2.0	3,005	100% Franked	18 November 2010
		4,521		

No dividends were paid in the year ended 30 June 2010. Franked dividends declared or paid were franked at the corporate tax rate of 30%.

Franking credit balance

	2011 $'000	2010 $'000
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	-	2,586
Impact on franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period	-	(1,276)

NOTE 30 – CLOSED GROUP CLASS ORDER

As an entity subject to Class Order 98/1418, relief has been granted to Mayne Pharma International Pty Ltd from the Corporations Act 2001 requirements for the preparation, audit and lodgement of their financial report.

As a condition of the Class Order, Mayne Pharma Group Limited and Mayne Pharma International Pty Ltd entered into a Deed of Cross Guarantee on 28 June 2010. The effect of the deed is Mayne Pharma Group Limited has guaranteed to pay any deficiency in the event of winding up of its controlled entity or if they do not meet their obligations under the terms of the liabilities subject to the guarantee. The controlled entity has also given a similar guarantee in the event that Mayne Pharma Group Limited is wound up or if it does not meets its obligations under the terms of loans or other liabilities subject to the guarantee.

The Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position of the Closed Group is equal to the consolidated result of the Group as the controlled entities that are not part of the Closed Group were dormant during the financial year.

NOTE 31 – EVENTS SUBSEQUENT TO BALANCE DATE

On 5 July 2011, Mayne Pharma announced it had received notification from Warner Chilcott that their application with the US Food & Drug Administration for approval of a new dose strength of Doryx® had been rejected. The Company continues to work with Warner Chilcott to lifecycle manage its Doryx® franchise to new dosage forms and vigorously defend its patent which underpins marketing exclusivity in the US.

Other than as noted above, there has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in future financial periods.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Mayne Pharma Group Limited, we state that:

1. In the opinion of the Directors:

   (a) the financial statements, notes and the additional disclosures included in the Directors' Report designated as audited, of the Company and of the Consolidated Entity are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

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

   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

   (c) there are reasonable grounds to believe that the members of the Closed Group identified in note 30 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee; and

   (d) the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2011.

On behalf of the Board

Roger Corbett AO
Chairman

Roger Aston
Director

Dated at Melbourne this 13th day of September 2011.

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Independent auditor's report to the members of Mayne Pharma Group Limited

Report on the financial report

We have audited the accompanying financial report of Mayne Pharma Group Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which follows the directors' report.

Opinion

In our opinion:

a. the financial report of Mayne Pharma Group Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

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

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

Report on the remuneration report

We have audited the Remuneration Report included in pages 20 to 24 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Mayne Pharma Group Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

David Petersen
Partner
Melbourne
13 September 2011

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 15 August 2011.

DISTRIBUTION OF ORDINARY SHAREHOLDERS AND SHAREHOLDINGS

SIZE OF HOLDING	NUMBER OF SHAREHOLDERS		NUMBER OF SHARES		NUMBER OF OPTION HOLDERS	NUMBER OF OPTIONS
1 to 1,000	329	14.4%	76,680	0.1%	-	-
1,001 to 5,000	391	17.1%	1,165,284	0.8%	-	-
5,001 to 10,000	337	14.8%	2,835,237	1.9%	-	-
10,001 to 100,000	1,036	45.4%	36,626,504	24.1%	-	-
100,001 and over	189	8.3%	111,074,995	73.2%	5	5,575,000
Total	2,282	100.0%	151,778,700	100.0%	5	5,575,000

Included in the above total are 349 shareholders holding less than a marketable parcel of 1,150 shares.

OPTIONS

There are 5,575,000 options on issue held by five individual option holders. Options do not carry a right to vote.

TWENTY LARGEST ORDINARY FULLY PAID SHAREHOLDERS

	SHARES	% OF TOTAL
Mr Bruce Mathieson and related entities	13,411,622	8.84
HSBC Custody Nominees (Australia) Limited	10,494,245	6.91
Dr Roger Aston and related entities	9,071,000	5.98
RBC Dexia Investor Services Australia Nominees Pty Limited	7,118,950	4.69
R & JS Smith Holdings Pty Ltd	6,240,000	4.11
UBS Nominees Pty Ltd	5,307,363	3.50
Morgrae Pty Ltd	3,000,000	1.98
Mr Roger Corbett and related entities	1,676,319	1.10
Sandhurst Trustees Ltd	1,507,910	0.99
Insync Investments Pty Ltd	1,500,000	0.99
J P Morgan Nominees Australia Limited	1,431,636	0.94
G & N Lord Superannuation Pty Ltd	1,419,244	0.94
Westcap Pty Ltd	1,314,221	0.87
Dilan Corp Pty Ltd	1,265,000	0.83
Mieke Investments Pty Ltd	1,250,000	0.82
National Nominees Limited	1,124,946	0.74
UBS Wealth Management Australia Nominees Pty Ltd	1,095,707	0.72
Hon Ron Best and related entities	957,224	0.63
Ms Leanne Jane Weston	951,621	0.63
San Goulopoulos Pty Ltd	900,000	0.59

SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders in the Company who had notified the Company in accordance with section 671B of the Corporations Act are:

Mr B L Mathieson	13,411,622 shares
TIGA Trading Pty Ltd	9,488,557 shares

INTELLECTUAL PROPERTY & GLOSSARY

Astrix®, Cleantaste®, Doryx®, Eryc®, Kadian®, Magnoplasm® and SUBACAP® are registered trademarks of the Consolidated Entity.

Kapanol® is a registered trademark of Glaxo Group Limited used with permission.

Sporanox® is a registered trademark of Johnson & Johnson.

Lamisil® is a registered trademark of Novartis AG.

Glossary

ANDA – Abbreviated New Drug Application

FDA – US Food and Drug Administration

IND – Investigational New Drug Application

MHRA – Medicines and Healthcare Products Regulatory Agency

Pharmacokinetic study – A study performed to examine the absorption, distribution, metabolism and excretion of a drug under investigation in health volunteers.

TGA – Therapeutic Goods Administration

NOTES

Corporate information

LEGAL FORM OF ENTITY

Mayne Pharma is a publicly-listed company whose shares are listed on the Australian Securities Exchange (ASX) and are traded under the code 'MYX'.

DIRECTORS

Mr Roger Corbett, AO
Dr Roger Aston
Hon Ron Best
Mr Bruce Mathieson
Mr Ian Scholes

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

ABN: 76 115 832 963

Mayne Pharma Group Limited
Level 9, 470 Collins Street
Melbourne VIC 3000

Telephone: +61 3 8614 7777
Facsimile: +61 3 9614 7022
Website: www.maynepharma.com

AUDITORS

Ernst & Young
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Melbourne VIC 3000

SOLICITORS

Minter Ellison Lawyers
Rialto Towers
525 Collins Street
Melbourne VIC 3000

BANKERS

National Australia Bank
Level 2, 151 Rathdowne Street
Carlton VIC 3053

DOMICILE AND COUNTRY OF INCORPORATION

Australia

MAYNE PHARMA SHARE REGISTRY

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford VIC 3067
Australia

GPO Box 2975,
Melbourne VIC 3001
Australia

Telephone
Australia: 1300 132 632
International: +61 3 9415 4184
Facsimile: +61 3 9473 2500
Email: web.queries@computershare.com.au

MAYNE PHARMA COMMUNICATIONS

The Mayne Pharma website, www.maynepharma.com offers information about the Company, announcements to ASX and presentations by the Chairman and Chief Executive Officer. The website also provides essential information about the Company and its products.

Mayne Pharma Group Limited
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