Appendix 4E

Preliminary final report

Mitchell Communication Group Limited

ABN 59 088 110 141

Current year ended: 30 June 2010
Previous corresponding period: 30 June 2009

This preliminary final report on results (including the results for the previous corresponding period) is provided to the Australian Securities Exchange (ASX) under Listing Rule 4.3A.

The listed issuer (Mitchell Communication Group Limited) has a formally constituted Audit Committee, Remuneration Committee and board of directors.

Results for announcement to the market

Financial results				$A'000
Total revenues	up	16%	to	262,031
Profit before interest and income tax expense	up	2%	to	29,394
Net profit for the year attributable to members	up	1%	to	19,416

Dividends (distributions)	Amount per security	Franked amount per security
Current year		
- Final dividend for the period ended 30 June 2010	5.0 ¢[1]	5.0 ¢[1]
- Interim dividend for the period ended 31 December 2009	2.3 ¢	2.3 ¢
Previous corresponding period		
- Final dividend for the period ended 30 June 2009	2.1 ¢	2.1 ¢
- Interim dividend for the period ended 31 December 2008	1.9 ¢	1.9 ¢
Record date for determining entitlements to the dividend	1 November 2010[1]	
Date the dividend is payable	8 November 2010[1]	

Details:

- Operating revenues of $261.1 million, up $35.9 million or 16% on the previous corresponding period ('pcp');
- EBITDA of $34.8 million, up $0.6 million or 2% on the pcp;
- Profit after tax of $19.4 million, up $0.2 million or 1% on the pcp;
- Operating cash flow of $56.1 million, up $26.7 million or 91% on the pcp;

For the details regarding the operations and financial performance for the Mitchell Communication Group Limited for the year ended 30 June 2010, please refer to the attached commentary contained within this Preliminary Final Report.

[1] Subject to the approval of the proposed scheme of arrangement with Aegis Group plc - for details refer to 'Subsequent Events' on page 2.

Commentary

Preliminary final results for the year ended 30 June 2010

The directors of Mitchell Communication Group Limited ('MCU' or the 'Company') announce the following preliminary final results for the year ended 30 June 2010.

Financial Highlights

In comparison to the pcp, the financial results for the year ended 30 June 2010 demonstrate:

- Group gross billings of $1,339.2 million, up $180.8m or 16% with the pcp;
- A $35.9 million or 16% increase in operating revenues, benefiting from new business wins, the growth of underlying business, as well as contributions associated with the recent acquisitions of the businesses of Starcom Worldwide (WA) and Insite Organisation;
- EBITDA of $34.8 million, up $0.6 million or 2% on the pcp;
- A profit after tax attributable to members of $19.4 million, up $0.2 million or 1% on pcp;
- Operating cash flow in the ordinary course of business of $56.1 million, up $26.7 million or 91% on pcp; and
- Cash surplus at year end (net of debt) of $42.5 million.

Operational Highlights

- The gross billings of the Group's Australian online advertising businesses increased by 27%, more than 2 times that of the online advertising market in Australia which increased by 13%[1] during the year ended 30 June 2010;
- The Group's traditional media revenues in Australia grew 15%, while the market as a whole for traditional media in Australia increased by 1%[2];
- Awarded Australia's largest Media Agency by Nielsen Media Research for 6th consecutive year;
- Media Agencies Mitchell & Partners and MPG awarded an A+ rating for competitiveness in pitches and industry buying share[3];
- Mitchell & Partners rated as Australia's most dominant media agency[4];
- The acquisition of numerous new client accounts during the period including the media accounts of David Jones, Sanitarium, Independent Distillers, Expedia, Golden Circle, Quest Serviced Apartment, Tourism WA, Australian Electoral Commission, SuperAmart and TruEnergy;
- The acquisition of the business of Western Australian media buying agency Starcom Worldwide (WA), which elevated the Group to the position of Western Australia's largest media buyer;
- The acquisition of integrated marketing and communications agency Insite Organisation, which has a blue chip client base and recognised expertise in multi-dimensional, integrated marketing and communication; and
- During the year the Group launched the operations of Haystac New Zealand and Haystac Singapore enabling the Company to leverage off trans-Tasman market synergies and enter the Asian public relations market.

Capital Management

- Fully franked dividends totalling 4.4 cents per share or $13.2 million were distributed to shareholders by way of cash and through the Dividend Reinvestment Plan (resulting in 2,827,590 shares issued) during the financial year;
- 1,185,245 fully paid ordinary shares were issued during the year as part consideration on the acquisition of Starcom Worldwide (WA); and
- During the year, the Company signed a new finance facility. The purpose of the facility being for acquisitions, general corporate and working capital requirements. The facility is an "all-in-one" cash advance and overdraft facility with a limit of up to $90 million. "Evergreen" facility with initial term to 31 October 2011, renewable thereafter.

Subsequent Events

On 29 July 2010, MCU announced plans to merge with Aegis Group plc ('Aegis'), one of the world's fastest growing marketing communications networks. Under the agreement, it is proposed that Aegis will acquire all of the issued capital in MCU for approximately $363 million. Should the transaction proceed, shareholders can elect to receive either $1.20 in cash per MCU share, or Aegis Group shares, or a combination of both. The scrip component of the offer will be based on the ratio of 40 Aegis shares for every 67 MCU shares held. In addition, in the event the transaction is approved, MCU shareholders will receive the benefit of a fully-franked MCU dividend in respect of the year ended 30 June 2010 of $0.05 per share. The Mitchell Board has also resolved to suspend the Mitchell Dividend Reinvestment Plan. Shareholders are expected to vote on the proposed merger in October 2010.

There were no other subsequent events that would have a material impact on the financial statements for the year ended 30 June 2010.

1- PricewaterhouseCoopers – IAB Online Advertising Expenditure Report - June 2010
2- Nielsen Adex excluding Online and Pay TV for the year ended July 2009 to June 2010
3- Australia *RECMA* report 2010 – *The Competition*
4- Australia *RECMA* report 2010 – *Network Diagnostics*

Consolidated statement of comprehensive income for the year ended 30 June 2010

	Note	Consolidated	
		June 2010 $A'000	June 2009 $A'000
Revenues from the rendering of services	3	261,136	225,183
Other revenues	3	895	940
Total revenues		262,031	226,123
Cost of revenue			
- Media delivery expenses		143,731	117,614
Total cost of revenue		143,731	117,614
Gross profit before expenses		118,300	108,509
Expenses			
- Employee, director and contractor expenses		62,873	55,697
- Occupancy expense		5,880	5,070
- Media research expense		3,145	2,735
- Travel and accommodation expense		2,836	2,254
- Finance expenses		2,370	2,527
- Software and infrastructure maintenance expense		1,583	1,168
- Communication expenses		1,103	1,097
- Accounting, legal and consultant's expenses		1,092	1,563
- Insurance expenses		835	831
- Other operating expenses		3,287	2,948
Total expenses		85,004	75,890
Profit before income tax expense, depreciation and amortisation		33,296	32,619
Depreciation and amortisation expenses	4	5,377	5,385
Profit before income tax expense		27,919	27,234
Income tax expense	5	8,503	8,032
Profit after income tax attributable to members of the Company		19,416	19,202
Other comprehensive income			
Exchange differences on translation of foreign controlled operations		90	39
Total comprehensive income for the half-year		19,506	19,241
Basic earnings per share (cents)	6	6.5	6.6
Diluted earnings per share (cents)	6	6.5	6.6

The consolidated statement of comprehensive income should be read in conjunction with the notes to the financial statements.

Consolidated balance sheet
as at 30 June 2010

	Note	Consolidated June 2010 $A'000	Consolidated June 2009 $A'000
ASSETS			
Current assets			
Cash and cash equivalents		112,518	76,112
Trade and other receivables	7	151,535	127,458
Other assets		7,171	9,139
Deferred tax assets		2,706	2,395
Total current assets		273,930	215,104
Non-current assets			
Property and equipment		8,703	9,999
Intangible assets	8	239,763	215,739
Total non-current assets		248,466	225,738
Total assets		522,396	440,842
LIABILITIES			
Current liabilities			
Trade and other payables	9	264,390	205,408
Provisions	11	5,450	3,299
Other financial liabilities	12	1,076	1,630
Current tax liabilities		1,269	2,475
Total current liabilities		272,185	212,812
Non-current liabilities			
Borrowings	10	70,000	73,000
Provisions	11	551	1,191
Other financial liabilities	12	16,604	-
Deferred tax liabilities		1,771	2,211
Total non-current liabilities		88,926	76,402
Total liabilities		361,111	289,214
Net assets		161,285	151,628
EQUITY			
Contributed equity	13	139,533	136,341
Reserves		155	(71)
Retained earnings	14	21,597	15,358
Total equity		161,285	151,628

The consolidated balance sheet should be read in conjunction with the notes to the financial statements.

Consolidated cash flow statement for the year ended 30 June 2010

	Consolidated	
	June 2010 $A'000	June 2009 $A'000
Cash flows from operating activities		
Cash receipts in the course of operations[1]	1,492,114	1,315,895
Cash payments in the course of operations[1]	(1,423,998)	(1,273,532)
Income taxes paid	(10,761)	(11,399)
Borrowing costs paid	(2,155)	(2,508)
Interest received	857	940
Net cash inflow from operating activities	56,057	29,396
Cash flows from investing activities		
Payments for property and equipment	(2,199)	(5,564)
Payment of deferred consideration	(1,605)	-
Payments for investments in controlled entities, net of cash acquired	(1,129)	(24,264)
Payments for intangible software assets and licences	(667)	-
Proceeds from sale of joint venture	69	137
Net cash outflow from investing activities	(5,531)	(29,691)
Cash flows from financing activities		
Dividends paid	(10,902)	(9,057)
(Repayment) of / proceeds from borrowings, net of costs	(3,160)	13,000
Repayment / (advance) of other loans	(60)	6
Repayment of loans from / (to) related parties	32	(838)
Finance lease payments	(25)	-
Share issue costs	(22)	(22)
Proceeds from issue of shares	17	-
Net cash inflow from financing activities	(14,120)	3,089
Net increase / (decrease) in cash held	36,406	2,794
Cash at beginning of year	76,112	73,318
Cash at end of year	112,518	76,112

The consolidated cash flow statement should be read in conjunction with the notes to the financial statements

[1] Inclusive of GST

Consolidated statement of changes in equity for the year ended 30 June 2010

	Consolidated June 2010					
	Issued Capital $A'000	Retained Earnings $A'000	Equity Plan Reserve $A'000	Foreign Currency Reserve $A'000	Minority Interest $A'000	Total $A'000
Balance as at 1 July 2009	136,341	15,358	273	(344)	-	151,628
Profit for the year	-	19,416	-	-	-	19,416
Exchange differences on translation of foreign controlled entities	-	-	-	90	-	90
Total comprehensive income for the year	-	19,416	-	90	-	19,506
Transactions with owners in their capacity as owners:						
Dividends declared and paid	-	(13,177)	-	-	-	(13,177)
Shares issued under dividend reinvestment plan	2,275	-	-	-	-	2,275
Share consideration on acquisitions	1,025	-	-	-	-	1,025
Share-based payments	-	-	136	-	-	136
Shares issued on the exercise of options	18	-	-	-	-	18
Transaction costs arising on share issues (net of tax)	(126)	-	-	-	-	(126)
Balance as at 30 June 2010	139,533	21,597	409	(254)	-	161,285

	Consolidated June 2009					
	Issued Capital $A'000	Retained Earnings $A'000	Equity Plan Reserve $A'000	Foreign Currency Reserve $A'000	Minority Interest $A'000	Total $A'000
Balance as at 1 July 2008	133,071	7,695	163	(383)	6,832	147,378
Profit for the year	-	19,202	-	-	-	19,202
Exchange differences on translation of foreign controlled entities	-	-	-	39	-	39
Total comprehensive income for the year	-	19,202	-	39	-	19,241
Transactions with owners in their capacity as owners:						
Dividends declared and paid	-	(11,564)	-	-	-	(11,564)
Changes in minority interest	-	25	-	-	(6,832)	(6,807)
Shares issued under dividend reinvestment plan	3,139	-	-	-	-	3,139
Share-based payments	213	-	110	-	-	323
Transaction costs arising on share issues (net of tax)	(126)	-	-	-	-	(126)
Share consideration on acquisitions	44	-	-	-	-	44
Balance as at 30 June 2009	136,341	15,358	273	(344)	-	151,628

Notes to and forming part of the financial statements for the year ended 30 June 2010

1. Statement of significant accounting policies

The preliminary final report does not include all notes of the type normally included within the annual financial report and therefore, cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The preliminary final report should be read in conjunction with the annual financial report of Mitchell Communication Group Limited as at 30 June 2009 and the 30 June 2010 annual financial report to follow. It is also recommended that the preliminary final report be considered together with any public announcements made by Mitchell Communication Group Limited during the year ended 30 June 2010 in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of preparation

The Appendix 4E preliminary final report and the disclosures therein have been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial statements have been prepared on the basis of historical costs and are presented in Australian dollars. These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy resulting from the adoption of applicable amending or new accounting standards are consistent with those of the previous year.

(b) Statement of compliance

The preliminary final report has been prepared in accordance with the Australian Securities Exchange Listing Rules and the financial disclosures included within it have been determined in accordance with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS').

(c) Changes in accounting policies

The Group was required to change certain accounting policies as a result of new or revised accounting standards, which became effective for the annual reporting period commencing 1 July 2009. The changes in standards which have affected this financial report are AASB 3 'Business Combinations', AASB 8 'Operating Segments' and AASB 101 'Presentation of Financial Statements'. There has been no restatement of balances arising on adoption of these standards.

AASB 3 *Business Combinations*
An outline of the changes to this standard is in Note 1(i).

AASB 8 Operating Segments
The Group has applied AASB 8 'Operating Segments' from 1 July 2009. AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker, being the Chief Operating Officer.

AASB 101 *Presentation of Financial Statements*
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(d) Principles of consolidation

(i) Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Mitchell Communication Group Limited ("Company" or "parent entity") as at 30 June 2010 and the results of all subsidiaries for the financial year then ended. Mitchell Communication Group Limited and its subsidiaries together are referred to in this financial report as the Group. Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Notes to and forming part of the financial statements for the year ended 30 June 2010

1. Statement of significant accounting policies continued

(d) Principles of consolidation continued

(i) Subsidiaries continued

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1(i)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

(ii) Joint ventures

The interest in a joint venture entity is accounted for in the consolidated financial statements using the equity method and is carried at cost by the parent entity. Under the equity method, the share of the profits or losses of the entity is recognised in the profit or loss, and the share of movements in reserves is recognised in reserves in other comprehensive income.

Profits or losses on transactions establishing the joint venture entity and transactions with the joint venture are eliminated to the extent of the Group's ownership interest until such time as they are realised by the joint venture entity on consumption or sale, unless they relate to an unrealised loss that provides evidence of the impairment of an asset transferred.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Mitchell Communication Group Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

(iii) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates; and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

Notes to and forming part of the financial statements for the year ended 30 June 2010

1. Statement of significant accounting policies continued

(f) Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable. Intercompany revenue is eliminated based on commissions earned by the mainstream Media segment from sales by the Digital and Diversified segments. Revenue is recognised for the major business activities as follows:

(i) Media
The Media division acts as agent for its clients. Amounts disclosed as revenue represent the amount earned for planning, buying and delivering media and is recognised in the period that the media is delivered and it is probable that the revenue will be received, and are net of payments to media suppliers and rebates of commission to clients and to advertising agencies that transact with the Group on behalf of their clients.

(ii) Digital
The Digital division acts as a principal and not as an agent in its transactions with clients and suppliers. Amounts disclosed as revenue and gross billings represent the amounts earned for planning, buying and delivering media impressions and performance activity on third party websites and is recognised in the period that the impression or performance activity is delivered and it is probable that the revenue will be received. This amount includes the value of the media impressions that are purchased from third party websites and sold to clients. The Group is liable for the payment to third party websites for the cost of media impressions and performance activity acquired from those websites.

Gross billings are shown before the deduction of commissions allowed to advertising agencies that transact with the Group on behalf of their clients. Amounts disclosed as revenue are shown net of these commissions.

(iii) Diversified
Revenue from the delivery of services is recognised upon the delivery of the service. Revenue relating to a specific contract is recognised based over the contract and service period. Income received in advance of the service or contract period is recorded as unearned revenue. Amounts disclosed as revenue are net of commissions paid to advertising agencies that transact with the Group on behalf of their clients.

(iv) Interest income
Interest income is recognised on a time proportion basis using the effective interest method.

(g) Deferred revenue
Deferred revenue represents gross billings received in advance for which the media has not yet been delivered. These amounts are recognised as revenue in accordance with the revenue recognition policy in note 1(f).

(h) Income tax
The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting periods in the countries where the Company's subsidiaries operate and generate taxable income. The Company established provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Notes to and forming part of the financial statements for the year ended 30 June 2010

1. Statement of significant accounting policies continued

(h) Income tax continued

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Tax consolidation legislation

Mitchell Communication Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2006.

The head entity, Mitchell Communication Group Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

Mitchell Communication Group Limited has a Tax Funding and Sharing Agreement. Under the Agreement the wholly-owned entities fully compensate Mitchell Communication Group Limited for any current tax payable assumed and are compensated by Mitchell Communication Group Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Mitchell Communication Group Limited under tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial accounts.

In addition to its own current and deferred tax amounts, Mitchell Communication 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 tax consolidated group.

Assets or liabilities arising under tax-funding agreements with the 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 tax consolidated entities.

(i) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The excess of the consideration transferred, over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill (refer to note 1(j)). If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a discount on purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Notes to and forming part of the financial statements for the year ended 30 June 2010

1. Statement of significant accounting policies continued

(i) Business combinations continued

Change in accounting policy

A revised AASB 3 Business Combinations became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes. All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition. Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

If the Group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

(j) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included as part of intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Software

Software has a finite useful life and is carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the software over its estimated useful life, which is currently between 3 to 4 years.

(iii) Brand names

Brand names recognised by the Company have an indefinite useful life and are not amortised. Each period, the useful life of the asset is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset.

(iv) Customer related

Customer contracts acquired as part of a business combination are recognised separately from goodwill. The customer relationships are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, which currently vary from 3 to 10 years.

(v) Stadia rights

Stadia rights acquired as part of a business combination had a finite useful life and were carried at their fair value at the date of the acquisition less accumulated amortisation and impairment losses. Amortisation was calculated based on the timing of projected cash flows of the rights over their estimated useful lives, which varied between 6 and 18 months. Stadia rights were fully amortised prior to 30 June 2010.

(k) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Notes to and forming part of the financial statements for the year ended 30 June 2010

1. Statement of significant accounting policies continued

(l) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(m) Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(i) Critical accounting estimates

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill and other indefinite life intangible assets

The Group tests annually whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1(i). The recoverable amounts of cash-generating units ('CGU') have been determined based on value in use calculations. These calculations require the use of assumptions. Management does not consider a change in any key assumptions will have a significant risk of causing a material adjustment to the carrying amount of the goodwill due to the large excess of value in use over the carrying amount of the CGU's.

(ii) Critical accounting judgements

Revenue recognition

The Group has made the judgement to recognise revenue from the Media division on an agency basis, while revenue from the Digital and Diversified segments is recognised as principal. Refer to note 1(f) for further details regarding the revenue recognition policy of the Group.

2. Segment information

The Group is organised on a global basis into the following divisions by product and service type. Management have determined the operating segments based on the reports required and relied upon by the board of directors. The operating segments are as follows:

- Media: The provision of services to clients for communications strategies and the planning and buying of traditional media.
- Digital: The provision of services to clients for interactive marketing and communications strategies and the planning and buying of interactive media and digital creative production.
- Diversified: The development and implementation of communications campaigns across a broad range of disciplines including public relations, experimental marketing, brand experience, sponsorship, sports ground marketing, direct marketing, corporate social responsibility, video and event production services, application development and automated ad templating, qualitative and quantitative research, marketing analytics, communication planning tools and processes.
- Corporate Central Services: The corporate and financial control functions of running the Group, including Group management, finance, human resources, information technology and administration activities.

Notes to and forming part of the financial statements for the year ended 30 June 2010

2. Segment information continued

Operating segments	Media		Digital		Diversified		Corporate Central Services		Consolidated	
INCOME STATEMENT	Jun 2010 $A'000	Jun 2009 $A'000	Jun 2010 $A'000	Jun 2009 $A'000	Jun 2010 $A'000	Jun 2009 $A'000	Jun 2010 $A'000	Jun 2009 $A'000	Jun 2010 $A'000	Jun 2009 $A'000
Revenue										
Revenue from the rendering of services	44,018	39,712	162,901	131,261	54,217	54,210	-	-	261,136	225,183
Segment result										
Profit/(loss) before interest, income tax, depreciation and amortisation	11,203	9,322	22,425	20,083	6,043	9,637	(4,900)	(4,836)	34,771	34,206
Depreciation of property and equipment	(832)	(765)	(535)	(562)	(1,188)	(915)	(613)	(489)	(3,168)	(2,731)
Amortisation of intangible assets	(695)	(663)	(820)	(1,245)	(529)	(583)	(165)	(163)	(2,209)	(2,654)
Profit/(loss) before interest and income tax	9,676	7,894	21,070	18,276	4,326	8,139	(5,678)	(5,488)	29,394	28,821
Interest revenue									895	940
Interest expense									(2,370)	(2,527)
Profit before income tax									27,919	27,234
Income tax expense									(8,503)	(8,032)
Net profit after income tax attributable to members of the Company									19,416	19,202

BALANCE SHEET	Jun 2010 $A'000	Jun 2009 $A'000	Jun 2010 $A'000	Jun 2009 $A'000	Jun 2010 $A'000	Jun 2009 $A'000	Jun 2010 $A'000	Jun 2009 $A'000	Jun 2010 $A'000	Jun 2009 $A'000
Assets										
Segment assets	241,232	249,127	42,972	38,976	128,392	104,162	109,800	48,626	522,396	440,891
Liabilities										
Segment liabilities	214,665	171,256	38,456	28,066	31,135	8,957	76,855	80,984	361,111	289,263
Consolidated net assets	26,567	77,871	4,516	10,910	97,257	95,205	32,945	(32,358)	161,285	151,628

Notes to and forming part of the financial statements for the year ended 30 June 2010

	Consolidated	
	June 2010 $A'000	June 2009 $A'000
3. Revenues		
Revenues		
Revenues from the rendering of services	261,136	225,183
Other revenues		
Interest revenues	895	940
4. Expenses		
Depreciation and amortisation		
Depreciation of property and equipment	3,168	2,731
Amortisation of intangible assets	2,209	2,654
Total depreciation and amortisation expense	5,377	5,385
5. Income tax		
(a) Income tax expense		
Current tax – relating to current year	9,519	9,555
Current tax – under/(over) provision in prior year	22	42
Deferred tax – origination and reversal of temporary differences	(1,038)	(1,565)
Aggregate income tax expense	8,503	8,032
Deferred income tax (benefit)/expense included in income tax expense comprises:		
- Decrease/(increase) in deferred tax assets	(439)	(704)
- Increase/(decrease) in deferred tax liabilities	(599)	(861)
	(1,038)	(1,565)
(b) Reconciliation of prima facie income tax expense calculated at 30% (2009: 30%) on profit	8,376	8,171
Increase in income tax expense due to:		
- Expenditure non deductible for tax purposes	389	107
- Under/(over) provision in prior year	22	42
Decrease in income tax due to:		
- Deductible acquisition costs	(298)	(286)
- Tax losses not recognised in deferred tax asset	14	(2)
Income tax expense for the year	8,503	8,032

Notes to and forming part of the financial statements for the year ended 30 June 2010

6. Earnings per share

	Consolidated June 2010 $A'000	Consolidated June 2009 $A'000
Basic earnings per share (cents)	6.5	6.6
Diluted earnings per share (cents)	6.5	6.6
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Earnings used in calculating basic and diluted earnings per share	19,416	19,202
	Number of shares	Number of shares
Weighted average number of ordinary shares and options used in calculating basic and diluted earnings per share	299,564,243	291,553,335

7. Trade and other receivables

	Consolidated June 2010 $A'000	Consolidated June 2009 $A'000
Trade receivables	152,155	128,153
Less: provision for impaired receivables	(620)	(695)
	151,535	127,458

Notes to and forming part of the financial statements for the year ended 30 June 2010

8. Intangible assets

Consolidated	Software & licence $A'000	Brand name $A'000	Customer-related $A'000	Stadia rights $A'000	Goodwill $A'000	Total $A'000
At 1 July 2008						
Cost	1,775	5,750	9,970	1,600	189,566	208,661
Less: accumulated amortisation	(770)	-	(1,708)	(1,442)	-	(3,920)
Net book value	1,005	5,750	8,262	158	189,566	204,741
Year ended 30 June 2009:						
Additions	322	-	-	-	-	322
Acquisition of subsidiary	545	-	172	-	12,613	13,330
Amortisation charge	(837)	-	(1,659)	(158)	-	(2,654)
Closing net book value	1,035	5,750	6,775	-	202,179	215,739
At 1 July 2009						
Cost	2,642	5,750	10,142	1,600	202,179	222,313
Less: accumulated amortisation	(1,607)	-	(3,367)	(1,600)	-	(6,574)
Net book value	1,035	5,750	6,775	-	202,179	215,739
Year ended 30 June 2010:						
Additions	504	-	-	-	-	504
Acquisition of subsidiary	162	-	324	-	25,243	25,729
Amortisation charge	(468)	-	(1,741)	-	-	(2,209)
Closing net book value	1,233	5,750	5,358	-	227,422	239,763
At 30 June 2010						
Cost	3,308	5,750	10,466	1,600	227,422	248,546
Less: accumulated amortisation	(2,075)	-	(5,108)	(1,600)	-	(8,783)
Net book value	1,233	5,750	5,358	-	227,422	239,763

Goodwill is allocated to the Group's cash generating units (CGU's) at the lowest levels for which there are separately identifiable cash flows. The recoverable amount of a CGU is determined based on value-in-use calculations. At 30 June 2010, the Group has determined that there is no impairment to intangible asset values based on the calculations performed.

9. Trade and other payables

	Consolidated June 2010 $A'000	Consolidated June 2009 $A'000
Trade payables	248,121	182,184
Deferred revenue	9,197	6,753
Other payables	7,011	16,355
Accrued interest	61	116
	264,390	205,408

Notes to and forming part of the financial statements for the year ended 30 June 2010

	Consolidated	
	June 2010 $A'000	June 2009 $A'000
10. Borrowings		
Non-current		
Bank loans	70,000	73,000
11. Provisions		
Current		
Employee entitlements	4,842	3,049
Other provisions	608	250
	5,450	3,299
Non-current		
Employee entitlements	551	1,191
12. Other financial liabilities		
Current		
Deferred consideration - acquisitions	1,057	1,630
Finance lease liability	19	-
	1,076	1,630
Non-current		
Deferred consideration - acquisitions	16,604	-

Deferred consideration is payable to the vendors of acquired entities or business pursuant to Sale and Purchase Agreements.

Notes to and forming part of the financial statements for the year ended 30 June 2010

	Consolidated	
	June 2010 $A'000	June 2009 $A'000

13. Contributed equity

	June 2010 $A'000	June 2009 $A'000
Share capital		
301,654,653 (2009: 297,447,291) ordinary shares, fully paid	139,533	136,341
Movements during the financial year		
Balance at beginning of the year	136,341	133,071
- 2,827,590 (2009: 7,134,839) shares issued under the Dividend Reinvestment Plan	2,275	3,139
- 1,185,245 (2009: nil) shares issued as part consideration on the purchase of Starcom Worldwide (WA)	1,025	-
- 194,527 (2009: nil) shares issued on the exercise of options and performance rights	18	-
- nil (2009: 500,000) shares issued under employment contract	-	213
- nil (2009: 781,281) issued as part consideration of earn-out payments on the purchase of Coleman Group Pty Ltd[1]	-	112
- nil (2009: 1,012,590) issued as part consideration on the purchase of Visual Jazz Pty Ltd[1]	-	(68)
Less: transaction costs arising on share issue, including the tax benefit from previous share issues	(126)	(126)
Balance at end of financial year	139,533	136,341

Share options	Number of options	Number of options
Movements in options:		
Balance at beginning of financial year	711,699	752,301
Forfeited during the financial year	(20,301)	(40,602)
Exercised during the financial year	(26,796)	-
Balance at end of financial year	664,602	711,699

Performance rights	Number of rights	Number of rights
Movements in options:		
Balance at beginning of financial year	1,770,172	-
Exercised during the financial year	(167,731)	-
Issued during the financial year	-	1,770,172
Balance at end of financial year	1,602,441	1,770,172

[1] June 2009 figure represents the variance between the estimated and actual value issued.

Notes to and forming part of the financial statements for the year ended 30 June 2010

14. Retained earnings

	Consolidated June 2010 $A'000	Consolidated June 2009 $A'000
Retained earnings at beginning of financial year	15,358	7,695
Net profit attributable to members of Mitchell Communication Group Limited	19,416	19,202
Dividends declared and paid during the financial year	(13,177)	(11,564)
Changes in minority interest	-	25
Retained earnings at end of financial year	21,597	15,358

15. Business combinations

(a) Acquisition of Insite Organisation

(i) Summary of the acquisition

On 1 December 2009, with effect from 1 November 2009, the Mitchell Communication Group announced it had acquired the business and assets of integrated marketing and communications agency Insite Organisation for consideration of $5,100,000 in cash, with $3,803,000 paid in December 2009 and $1,297,000 paid in June 2010. Further consideration up to a maximum of $20,000,000 may be payable on the achievement of certain profit hurdles to 31 December 2012. The payment of contingent consideration will be reassessed at 30 June 2011. Details of the fair value of the assets and liabilities acquired, intangible assets and goodwill are as follows:

(ii) Purchase consideration	$A'000
Cash paid – 1 December 2009	3,803
Deferred cash consideration – paid prior to 30 June 2010	1,297
Contingent consideration (cash/equity) – 31 March 2013	13,349
Contingent consideration (cash/equity) – 31 March 2014	3,165
Total purchase consideration	21,614
Intangible assets	234
Deferred tax liabilities on intangible assets recognised	(70)
Fair value of net identifiable assets acquired	206
Goodwill	21,244

Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount $A'000	Fair value $A'000
Cash and cash equivalents	1,087	1,087
Receivables	922	1,420
Other assets	82	82
Fixed assets	64	62
Trade and other payables	(2,083)	(2,373)
Provision for employee entitlements	(72)	(72)
Net identifiable assets acquired	-	206

The fair value of assets and liabilities acquired was based on discounted cash flow models. The goodwill is attributable to the profitable nature of the business, future growth prospects, the ability of the business to attract high quality personnel and the current workforce in use. The intangible assets are customer-related intangible assets, which have a useful life of three years. Since the acquisition, the Company has performed a detailed value-in-use calculation, which supports the carrying value of all intangible assets arising from the acquisition.

Notes to and forming part of the financial statements for the year ended 30 June 2010

15. Business combinations continued

(b) Acquisition of Starcom Worldwide (WA)

(i) Summary of the acquisition

On 31 August 2009, with effect from 1 July 2009, the Mitchell Communication Group announced it had acquired the business and assets of Western Australian media buying agency Starcom Worldwide (WA) for consideration of $1,025,000 in equity issued. Further consideration up to a maximum of $957,200 may be payable on the satisfaction of certain financial measures as at 30 June 2010. Further consideration, by way of share issued totalling $191,000 is payable on 30 June 2010 and 30 June 2011 and as such, has been included in the purchase consideration. Details of the fair value of the assets and liabilities acquired, intangible assets and goodwill are as follows:

(ii) Purchase consideration	$A'000
Equity issued	1,025
Additional cash consideration – payable 30 June 2010	957
Additional equity consideration – equity issue 30 June 2010	100
Additional equity consideration – equity issue 30 June 2011	91
Total purchase consideration	2,173
Intangible assets	90
Deferred tax liabilities on intangible assets recognised	(27)
Fair value of net identifiable liabilities acquired	(1,704)
Goodwill	3,814

Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount	Fair value
	$A'000	$A'000
Cash and cash equivalents	3,043	3,043
Receivables	8,909	8,909
Fixed assets	144	113
Other assets	40	40
Deferred tax asset	-	18
Trade and other payables	(13,560)	(13,560)
Provision for employee entitlements	(206)	(267)
Net identifiable assets/(liabilities) acquired	(1,630)	(1,704)

The fair value of assets and liabilities acquired was based on discounted cash flow models. The goodwill is attributable to the profitable nature of the business, future growth prospects, the ability of the business to attract high quality personnel and the current workforce in use. The intangible assets are customer-related intangible assets, which have a useful life of three years.

Since the acquisition, the Company has performed a detailed value-in-use calculation, which supports the carrying value of all intangible assets arising from the acquisition.

Notes to and forming part of the financial statements for the year ended 30 June 2010

15. Business combinations continued

(c) Acquisition of Picture This! Productions

(i) Summary of the acquisition

On 11 November 2008, the Mitchell Communication Group announced it had acquired the business and assets of Picture This! Productions Pty Ltd, for consideration of $70,000 in cash. Picture This! Productions provide video and event production services to clients. On 7 December 2009, additional consideration of $100,000 was paid. There is no further consideration payable for the acquisition. Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

(ii) Purchase consideration	$A'000
Cash paid	70
Additional consideration – 7 December 2009	100
Total purchase consideration	170
Goodwill	170

The goodwill is attributable to future growth prospects and the current workforce in use. Since the acquisition, the Company has performed a detailed value-in-use calculation that supports the carrying value of the goodwill arising out of the acquisition.

(d) Acquisition of Agile Automated Advertising

(i) Summary of the acquisition

On 21 July 2008, with effect from 1 July 2008, the Mitchell Communication Group acquired a licence, software and customers from the Adcast Group Pty Ltd, for consideration of $1,200,000 in cash. The main driver of the business combination was to acquire Adcast's Automated Ad Templating Technology. Details of the fair value if the assets and liabilities acquired, intangible assets and goodwill are as follows:

(ii) Purchase consideration	$A'000
Cash paid	1,200
Total purchase consideration	1,200
Fair value of intangible assets acquired	486
Goodwill	714

The fair value of intangible assets acquired is based on discounted cash flow models. The goodwill is attributable to future growth prospects and the current workforce in use. The intangible assets relate to software intangible assets which have a useful life of three years, as well as a licence which has an infinite life. Since the acquisition, the Company has performed a detailed value-in-use calculation, which supports the carrying value of all intangible assets arising on the acquisition.

Notes to and forming part of the financial statements for the year ended 30 June 2010

15. Business combinations continued

(e) Acquisition of Vivid Holdings Australia Pty Ltd

(i) Summary of the acquisition

On 27 August 2008, with effect from 1 July 2008, the Mitchell Communication Group acquired 100% of the issued capital in Vivid Holdings Australia Pty Ltd ('Vivid Group'), a communications and technology services company which delivers innovation in branding, digital media and application development, for consideration of $11,700,000 in cash. No further consideration is payable. Details of the fair value of the assets and liabilities acquired, intangible assets and goodwill are as follows:

(ii) Purchase consideration	$A'000
Cash paid	11,700
Direct costs relating to the acquisition	45
Total purchase consideration	11,745
Intangible assets	172
Fair value of net identifiable assets acquired	652
Deferred tax liabilities on intangible assets recognised	(52)
Goodwill	10,973

The fair value of assets and liabilities acquired are based on discounted cash flow models. The goodwill is attributable to future growth prospects, the ability of the business to attract high performing personnel, and the current workforce in use. The intangible assets are customer-related intangible assets, which have a useful life of three years. Since the acquisition, the Company has performed a detailed value-in-use calculation, which supports the carrying value of all intangible assets arising from the acquisition.

16. Dividends

	Cents per share	Total Amount $A'000	Franked / unfranked	Date of payment
2010				
Interim 2010 ordinary	2.3	6,906	100% franked	16 April 2010
Final 2009 ordinary	2.1	6,271	100% franked	2 October 2009
Total amount		13,177		
2009				
Interim 2009 ordinary	1.9	5,516	100% franked	17 April 2009
Final 2008 ordinary	2.1	6,048	100% franked	26 September 2008
Total amount		11,564		

17. Net tangible asset backing

	Consolidated	
	June 2010 Cents per share	June 2009 Cents per share
Net tangible asset backing per ordinary security (cents)	(26.0)	(21.6)

Notes to and forming part of the financial statements for the year ended 30 June 2010

18. Contingencies

The Group had no contingent assets or liabilities at balance date (2009: nil).

19. Audit status of the statutory accounts

The report is based on accounts, which are in the process of being audited. The entity has formally constituted audit committee.

Dion Cust
Company Secretary

Dated: 18th August 2010