

Leading the way in a world of changing marketing communications

Annual Report 2010

mitchell





**1803**

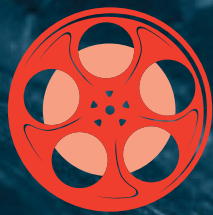
Australia's first newspaper,  
The Sydney Gazette was first  
published on 5 March 1803



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An **exceptional** year for our Company.



**1906**

The Australian film industry produces 'The Story of the Kelly Gang', one of the world's first full-length feature films

# Chairman's Report



The past year has been an exceptional one for our Company. Despite the difficult economic times around the world, we had prepared well in advance for the downturn. Throughout the reporting period, we maintained very tight controls and a careful approach to debt, but always a very optimistic view.

Australia, we can now see, has been in a very good position with a strong economic state compared to the rest of the world. Our continued success reflects our people, who are amongst the best in the world. As is the Australian media industry.

It's an important yet little known fact that for every year since 1999, with the exception of 2006, Australia has led the world in the ratio of adspend to GDP. We now also hold the title for highest per capita spend of advertising of any country. We have built our base in Australia precisely because the market here is so strong and this has ensured our dominance over many years.

It's important that as a nation, we don't waste the opportunity that Australia's strength presents. Whilst our resources wealth will keep us strong for many decades, it's vital that we now invest in the intellectual capital of our country. That is, our people. This is what your Company has always done.

We are the envy of many of our competitors and it's our people who have brought us to this position. To be successful in our business, it's essential to provide integrated channel planning solutions and the right communications specialists to execute these plans. With our five divisions working closely together and a very tight synergy between all our service offerings, this is exactly what we have done. The structure of our Company has been a great benefit to our clients, our suppliers, our staff and of course, our shareholders.

We expect to see continued growth in our own Company in the year ahead, and we believe that more broadly, economic growth will continue steadily for the next three years. We've seen amongst our competitors that others did not read the market as we did. But even with all the good news, there is no room for complacency.

Looking beyond our recent financial results to the opportunities out there in the wider world, we believe that, given the chance, our Company can compete with our international counterparts and lead our industry on a global stage. An offer is currently before our shareholders from one of the world's most outstanding communications companies, Aegis Group plc.

An Independent Expert has concluded that the offer is fair and reasonable and in the best interests of our shareholders. Further, your Board considers that the scheme is in the best interests of Mitchell Shareholders and the directors unanimously recommend that you vote in favour of the scheme, in the absence of a superior proposal.

We believe the offer is consistent with our aim to promote Australians to the forefront of global advertising. You will by now have received the Scheme Booklet, in which we have outlined the reasons behind the Board's recommendation. I look forward to meeting with Shareholders when we gather to vote on the Scheme in the coming weeks.

It has been a decade of great success but we can't rest. There is much to be done and those who wish to be successful need to read the signs, look ahead and plan to take advantage of the situation we are in. An exciting year lies ahead at the beginning of an exciting decade for our Company.

**Harold Mitchell AC**, Executive Chairman





## 1923

On 13 November 1923  
2SB Sydney provided the  
first commercial radio  
service in Australia

We have defied  
market trends  
to consolidate  
**our number  
one position.**

# CEO's Report



In our last Annual Report, I stated that when times are tough, it's more important than ever to be resilient and show strength and leadership. These traits again proved integral to our Company's strong results in FY'10 as we continued to outperform the market.

We have defied market trends to consolidate our number one position across digital and traditional media. Our Media division increased our market share to lead our nearest competitor by more than \$200 million in annual billings for the 2009 calendar year (source: The Nielsen Company 2010 excluding online & Pay TV).

Our financial results for FY'10 were strong, with top line growth allowing for investment in building our operational capacity. In particular, we invested in our people, increasing our full time staff by 15%.

Digital capabilities are ever more important and we continue to lead the market in this area. We are number 1 in display, search and digital creative and are focused on maintaining our leadership position through a commitment to innovation. We have been rewarded by the strength in demand for digital media solutions and are poised to continue to capitalise on market growth in this area.

As a Group we have always recognised the importance of relationships within our industry and it is our strong relationships with suppliers, new and existing clients that have ensured our continued dominance. The relationships and partnerships we've built over the 35-plus years that we've been in the marketing communications business have been the bed rock of our number 1 market position.

We have worked with many of our clients for years and some since our business was founded, and I would like to take this opportunity to thank all our clients for their ongoing support. I also thank our longstanding suppliers. We consider ourselves lucky to work with the best people in our industry on a daily basis and will continue to collaborate and innovate with our media partners.

With strategic planning by our locally-based management team, we were well positioned to capitalise quickly on opportunities for growth in FY'10. Our financial performance was buoyed by numerous new client account wins across all our business divisions, and we were able to convert exceptional volume growth to strong profits.

Small, tactical acquisitions increased the strength of our services and geographic representation over the course of the financial year. The acquisition of the business of Western Australian media buying agency Starcom Worldwide (WA) elevated our Group to the position of Western Australia's largest media buyer, and the acquisition of integrated marketing and communications agency Insite Organisation added a suite of complementary services to our Diversified division.

As our financial results demonstrate, we finished FY'10 in a financially strong position with record cash flows and net cash on the balance sheet at year end. We have again been able to reward shareholders with increased dividends.

As always, our staff are the backbone of our success. From senior management to our most recent recruits, our staff are committed to delivering growth, innovation and excellent service. I thank all our staff for their invaluable contribution in FY'10.

**Stuart Mitchell, CEO**



### Harold Mitchell AC

EXECUTIVE CHAIRMAN

Harold Mitchell is the founder of Mitchell & Partners and Executive Chairman of the Mitchell Communication Group. Since he started Mitchell & Partners in 1976, the company has evolved to become the largest media and communications group in Australia today, with a growing presence in New Zealand and across the Asia-Pacific region.

In December 2000, he launched the Harold Mitchell Foundation which distributes funds between health and the arts. He has been Chairman of the National Gallery Australia, President of the Melbourne International Festival of Arts, President of the Museums Board of Victoria and a Board Member of the Opera Australia Council.

Mr Mitchell holds a large number of community roles including Chairman CARE Australia; Chairman of the Melbourne Symphony Orchestra; Chairman of ThoroughVision; Chairman and part Owner of the Melbourne Rebels Rugby Union team; Chairman of TVS, University of Western Sydney's television service for Greater Sydney; Chairman of Art Exhibitions Australia; Director of Tennis Australia; and Director of Deakin Foundation.

Mr Mitchell was appointed Companion of the Order of Australia in 2010 for eminent service to the community through leadership and philanthropic endeavours in the fields of art, health and education and as a supporter of humanitarian aid in Timor-Leste and Indigenous communities.

### Garry Hounsell

DEPUTY CHAIRMAN  
AND CHAIRMAN OF  
THE AUDIT & CORPORATE  
GOVERNANCE COMMITTEE

Garry Hounsell is a former Senior Partner of Ernst & Young and Chief Executive Officer and Country Managing Partner of Arthur Andersen. He is also a Fellow of The Institute of Chartered Accountants in Australia, and a Fellow of the Australian Institute of Company Directors. He holds a Bachelor of Business (Accounting) degree from Swinburne Institute of Technology and is a Certified Practising Accountant.

Mr Hounsell is currently Chairman of PanAust Limited; Chairman of Investec Global Aircraft Fund and a director of Qantas Airways Limited, Orica Limited, Nufarm Limited, Dulux Group Limited, Ingeus Limited and Freehills.

### Stuart Mitchell

CHIEF EXECUTIVE OFFICER

Stuart Mitchell is the Chief Executive Officer of Mitchell Communication Group. Under his leadership, Mitchells has grown to incorporate 21 separate but integrated businesses across a broad range of media and communication services.

Stuart has more than 18 years experience with the company across all aspects of media, from planning to negotiating annual buying deals with major media organisations.

Stuart has led the diversification of the Mitchell Communication Group from a traditional and digital focus to cover all communication channels. Under Stuart's leadership, the Group has expanded geographically into Western Australia and secured a market-leading position for a number of businesses.



# Board of Directors



**Rob Stewart**

Rob Stewart is a company director and management consultant with broad general management experience and a legal background. He has been a director of a number of public and private companies in a diverse range of industries covering information technology, internet services, biotechnology, high technology filtration, manufacturing, packaging, telecommunications and forestry.

For 11 years, he was National Managing Partner of Minter Ellison, one of Australia's leading law firms, before retiring in June 1999. Mr Stewart spent five years with Pacific Dunlop from 1976 to 1981 in a variety of general management positions. He has also served on the boards of a number of not for profit organisations.

Mr Stewart is a director of Melbourne IT Limited and Chairman of the Baker IDI Heart & Diabetes Institute Ltd.



**Stephen Cameron**

Stephen Cameron has over 35 years of experience in the advertising and marketing industry. Since 1970, he has worked primarily in the advertising industry with a variety of global marketers in Australia and Asia, and on world-leading brands such as Coca-Cola, McDonalds, Mars, Nestlé, Levi's and Goodyear.

Mr Cameron has held a number of senior management positions in advertising agencies and was a partner with advertising agency George Patterson Bates for eight years.

For seven years to December 2005, Mr Cameron was Director of Corporate Marketing for Optus. Mr Cameron presently owns and runs eight Yes Optus retail stores in metropolitan Sydney.



**Naseema Sparks**

Naseema Sparks is a professional non-executive director and sits on a number of listed company and not for profit boards. Naseema's expertise as a director is in marketing, corporate brand reputation and risk management, corporate strategy and business management

Naseema's executive career was as Managing Director of M&C Saatchi, one of the world's leading branding and advertising businesses. Naseema was a global equity partner, and held the position of MD for 10 years to 2007, a period which saw the Australian Agency grow to become one of the top 10 agency groups in Australia.

She is currently a director of Blackmores Ltd, Osteoporosis Australia, the Sydney Dance Company and PMP Ltd. Naseema is National President of Chief Executive Women.



**Rod Lamplugh**

Rod Lamplugh has over 20 years experience as a commercial lawyer assisting with the acquisition of businesses and major business transactions in the media sector.

Mr Lamplugh has been a director of Mitchell Communication Group since its inception. Mr Lamplugh is also a director of all the Group's subsidiary companies.



# mitchell

COMMUNICATION GROUP

## Media

- media communications strategy
- media planning and buying
- consumer insights research
- specialist strategic advice
- branded content solutions
- direct response

**Mitchell & Partners** Offline planning & buying

**MPG** Offline planning & buying

**mitchell**  **MPG**

## Digital

- digital communications strategy
- digital media planning and buying
- ROI planning and tracking
- search engine marketing
- search strategy
- e-marketing
- digital creative services

**emitch** Online planning & buying

**Media Contacts** Online planning & buying

**Columbus** Search engine marketing

**Visual Jazz** Digital creative agency

**Catch!** Digital direct response media agency

**SMU** Social media strategy

**emitch** 

**media contacts** 

**columbus**   
an emitch company

**CATCH!**

**VJ**  **visualjazz**

**smu**   
SOCIAL MEDIA UNIT  
Part of the Mitchell Communication Group

# Mitchell Communication Group

## Business Divisions

### Diversified

- public relations
- corporate social responsibility
- brand experience
- sponsorships
- mobile marketing
- printing and signage
- sports ground marketing
- video and event production services
- media strategy and leverage
- sponsorship negotiation & leverage
- talent management
- digital publishing

**Stadia Media** Sports ground signage

**Haystac** Public relations

**Spark** Public relations

**Impact** Brand activation

**Coleman Group** Signage & production

**Picture This!** Video and event production services

**Mocom** Mobile loyalty programs

**HPO** Corporate social responsibility

**Rodeo** Creative design services

**Insite** Integrated marketing & communications

### Technology

- branding, digital media and application development
- automated ad agency templating

**Vivid Group** Branding, digital media and application development

**Agile** Automated ad template system



### Research

- qualitative and quantitative research
- marketing analytics
- communication planning tools and process

**Symphony** Analytics & research

symphony  
ANALYTICS & RESEARCH





By delivering **growth, innovation and excellent service**, we maintained our leadership position

- **\$1,339.2 million** billings, up 16% on pcp
- Total operating revenues of **\$261.1 million**, up 16% on pcp.



## 1956

Australia's first TV broadcast was presented by Bruce Gyngell on 16 September 1956. He said, "Hello everyone, and welcome to television"

# Review of Operations

## Introduction

The principal activities of the economic entity constituted by Mitchell Communication Group Limited and the entities it controls (the Group) are the provision of communications services, including:

- traditional and online media strategy, planning and buying;
- interactive marketing, digital creative and technology services
- search engine marketing
- public relations, experiential marketing and brand experience
- direct marketing
- sponsorship, rights management and outdoor advertising
- sports ground marketing
- mobile marketing
- corporate social responsibility consulting services
- video and event production services
- digital publishing
- talent management
- quantitative and qualitative research, market analytics, communication planning tools and processes.

### Year in Review

The financial year ended 30 June 2010 was a strong year for the Group, with double digit growth in revenue and cash flow. Top line growth was driven primarily by new client wins and we took the opportunity to continue to invest in building the operational capacity of the Company and in particular staff.

By delivering growth, innovation and excellent service, we maintained our leadership position in the market and are number 1 in many of our business pursuits. Our long held client and supplier relationships have held us in good stead to deliver despite continued challenging conditions.

Gross billings again topped the billion dollar mark at \$1,339.2 million, up 16% on the previous corresponding period [pcp].

Total operating revenues were \$261.1 million, an increase of 16% on pcp. "Cash earnings" or EBITDA grew 2% to \$34.8 million, while net profit after tax was up 1% on pcp to \$19.4 million.

As a Group, we continued to outperform the market. The gross billings of our Australian online advertising businesses increased by 27% compared to the pcp, more than two times that of the online advertising market as a whole which increased by 13% [source: PricewaterhouseCoopers – IAB Online Advertising Expenditure Report, June 2010]. We have the number 1 full service digital agency and search marketing company in the country.

Our Media division recorded billings growth of 15% compared to an increase of 1% across the market as a whole [source: Nielsen Adex excluding online and pay TV]. We were Australia's largest Media Agency for the sixth consecutive year [source: The Nielsen Company].

It was a challenging year for our Diversified division, encompassing the Technology and Research business segments, with revenue in line with pcp. We maintained investment in staff across all businesses within the division. Improved market conditions and business performance with our Public Relations businesses saw Q4 outperforming the prior period.

Should our proposed merger with Aegis Group plc be approved, shareholders will receive a fully franked, final dividend of 5.0 cents per share up 138% on pcp. This will result in a full year dividend of 7.3 cents per share.

Operating cash flow was \$56.1 million, up \$26.7 million or 91%, demonstrating the extremely strong cash flow nature of the business.

### Market conditions

FY'10 presented challenging conditions however, our strong client base, market leadership position and supplier relationships placed us in a position to succeed. With the strong performance of our Digital and Media divisions and emerging new areas of our Diversified division, the Group is ideally positioned to capitalise on emerging media opportunities.



## A year of highlights and milestones

- media billings up **15%** to more than **\$1.1billion**
- Australia's **largest media agency** for **6th** consecutive year
- more than **120** new client wins.

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### 1976

Mitchell & Partners was founded in 1976 as a pioneer specialist media agency in Australia. We have evolved over the years to become diversified marketing and communications specialists



# Review of Operations

## Introduction (continued)

### Outlook

We are confident that the Company and our business model positions us well to continue to lead the market.

We will continue to leverage from our long standing reputation, strong customer and client relationships and number 1 position in many of our fields of pursuit. We are driven by innovation and an ethic of hard work, which we believe will result in us increasing our market share even further.

As a Group, we are forecasting a 12% increase in total ad market spend in Australia in CY'10 and strong single digit growth in CY'11. Our traditional and digital media businesses will continue to go from strength to strength, and the importance of Digital will increase.

We will continue to capitalise on the convergence of ad spend from traditional to digital media and the high rates of per capita ad spend in Australia. With a number 1 position in the Digital communications industry and as an integrated business we are well placed to capitalise on this structural change. We also expect to see our Diversified division continue its recent momentum.

We will continue to focus on the five key areas of staff, clients, suppliers, profit and shareholders as FY'11 progresses.

## Media Division

The principal activities of the Media division are the provision of media communications strategy, media planning and buying, consumer insights research, specialist strategic advice and branded content solutions.

### Year in Review

FY'10 was a year of highlights and milestones for our Media division.

- Outstanding performance from Australia's most dominant media agency<sup>1</sup>;
- Record volumes at improved margins;
- Media billings for Australian agencies up 15%, versus growth of just 1% for the traditional media market as a whole<sup>2</sup>;
- Australia's largest Media Agency for the 6th consecutive year<sup>3</sup>;
- Media Agencies Mitchell & Partners and MPG awarded an A+ rating by RECMA<sup>4</sup>;
- Implementation of PULSE, a proprietary strategic planning system;
- More than 120 new client account wins during the period.

For the second year in a row, both Mitchell & Partners and MPG were awarded an A+ rating by international media agency benchmarking authority RECMA, two of only three A+ results awarded in Australia.

We achieved billings of more than \$1.1 billion making us the undisputed number one media group in Australia for the sixth year in a row, achieving the largest margin over our competition ever.

The Media division's success has been achieved through very strong new business wins and increased marketing activity with existing clients.

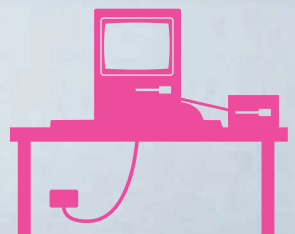
The introduction of 'PULSE', our Group-wide framework for strategy development, innovation and integration which has been championed by Mitchell & Partners, has had a very successful rollout. It has been enthusiastically embraced by both existing clients and new business prospects and has been singled out for contributing to new business wins.

### Footnotes

1. Australia RECMA report 2010 - Network Diagnostics
2. Nielsen Adex excluding Online & Pay TV for July 2009 - June 2010.
3. The Nielsen Company
4. Australia RECMA report 2010 - The Competition.

Australia's **most dominant** media agency

Mitchell & Partners and MPG awarded **A+ rating** by RECMA



## 1983

Australia's first international internet connection occurred in 1983, when a link was established from Darwin to the University of California

# Review of Operations

## Media Division (continued)

The Media division's executive team of Paul Davey, Allen Scash, Andrew Norris, Teena Jameson, Kenny Stewart, Alan Mathews, Philip O'Neil and Kristian Barnes have done an incredible job over the past 12 months with clients and staff. Without their contribution we would not have achieved the tremendous results that we did.

### Mitchell & Partners

Mitchell & Partners is Australia's leading media agency with offices in Melbourne, Sydney, Brisbane, Perth and Auckland.

Mitchell & Partners Melbourne added over 80 new clients in FY'10, including Golden Circle, Avalon Airport and Independent Distilleries Group, with increased budgets from many existing clients.

Mitchell & Partners Sydney is now a true force to be reckoned with in the toughest advertising market in Australia. The business started the year by securing the David Jones business, followed by Sanitarium and most recently ING, among others. Spending by existing clients has also contributed to a stellar year.

The anniversary of our 10th great year in Queensland coincides with a changing of the guard. In May, Teena Jameson was promoted to a national account management role and Kenny Stewart has relocated to take over the role of Managing Director. Our Brisbane operation continued to dominate the Queensland market with a very strong performance and billings of almost double our nearest competitor.

Our operation in Perth moved from strength to strength with the successful merger of our existing operation with that of Starcom WA. Mitchell & Partners Perth is the undisputed market leader in the state. The win of the Tourism WA media account in a hotly contested pitch was a highlight for the year, and one of 18 new business achievements including Transperth, Blue Steel and Edith Cowan University.

In FY'10 we began to see the benefits of the restructure of our New Zealand operation into a more full service offering. New business wins, including Pernod Ricard, 2 Degrees Mobile and Pacific Brands have contributed to a positive year. Pleasingly, we have also had some of our Australian client relationships extend to include the New Zealand market, with The Good Guys out of our Melbourne office being the most recent.

### MPG

MPG is an international media service group. In Australia and New Zealand, MPG is a joint venture between the Mitchell Communication Group and Havas, one of the world's leading groups in communications consulting.

MPG has had a very successful 12 months. Increased spend from existing clients, most notably in the telecommunications and insurance sectors, and strong performance in new business are highlights, with new client wins including Symantec Australia, Evian, Icon Films and the Institute of Chartered Accountants.

### Market Conditions

It has been 12 months of 'feast and famine' in the Australian media world. July 2009 saw a very weak media market. A buyer's market such as we have not seen for many years. For clients that were willing to commit (and luckily we had many), the market was theirs to own.

We noted the market showing signs of recovery towards the end of calendar year 2009, and it was as though a switch had been flicked as we came out of the Christmas/New Year period. The market had turned quickly to become a seller's market. The release of new time-shifted ratings for television changed our industry, with a new audience measurement panel including digital video recorder owners for the first time.

It was a challenging year for our industry, with a late start to regular television programming (in part due to the Winter Olympics telecast), general economic uncertainty and a pending Federal election. Despite this, our Company was well placed to maintain a positive outlook and negotiate deals.

Advertising spend runs on confidence. As consumer and business confidence grew during the year, our earlier prediction that the decline in advertising spending had finished was confirmed. The industry as a whole has returned to strong growth. Australia has been one of the best places in the world to be over the past two years and remains so as we well and truly pass the downturn.

### Outlook

Despite challenging market conditions, Mitchell's media division substantially outperformed the industry, achieving billings growth of 15% versus market growth of 1%. This has placed us in a strong position to take advantage of a market that is now booming again. This gives us every reason to believe growth will escalate further, lifted by rising business confidence, marketing battles in several industries and elections at federal and state level.





1987

Mel Ward, then managing director of Telecom Australia, made the nation's first mobile phone call from the Sydney Opera House

In a market that experienced growth of 13%, our Australian Digital media operations turnover was **up 27%**.

# Review of Operations

## Digital Division

The principal activities of the Digital Division are the provision of digital media strategy, planning and buying, search engine marketing and creative services.

### Year in Review

This has been a very strong year for the Digital division. In a market that endured tough economic conditions our growth and performance has been exceptional both in our media and in our creative operations.

In a market that experienced growth of 13% (source: IAB 2010), our Australian media operations turnover was up 27%. We have enjoyed success across the board with increased spend coming from the finance, automotive, telecommunications and travel sectors.

Our most pleasing success has been in the retail and Social Media arenas. The decision to invest time and resource into developing a digital retail specialisation and The Social Media Unit has been fundamental to illustrating the billings and margin growth that can be secured by rigorously pursuing a path of innovation.

Our creative business Visual Jazz has gone from strength to strength with a series of high profile wins including The Fosters Group, ANZ, MYOB and Jetstar. At the same time, the business has won industry recognition from their peers at local and international award ceremonies.

As Australia's pre-eminent digital operation we are very fortunate to be able to bring our core values of innovation, creativity and accountability to bear across a wide variety of clients. We are very grateful to all of those clients for allowing us to work with them in this most interesting of fields.

### Companies within Digital Division

#### emitch

emitch is Australia's longest established digital media operation. Significant investment in staff numbers, processes and technology saw the business enjoy high profile success in each of our locations and build on its position of leadership during FY'10.

Our insights into consumer behaviour gave life to a specialist retail unit that enjoyed success across Australia. Our desire to always be the first to take the 'next step' led to us investing in retail for the benefit of our clients and the broader industry. Innovation is a behaviour trait that can be found in every member of the emitch team. We look forward to taking the industry forward in the next year.

#### Media Contacts

It was a year of transformation for Media Contacts. We continued to extend our digital offering to include Search Engine Optimisation while expanding capacity within our Social Media Unit to cater for all Mitchell Communication Group businesses in Sydney. Utilising our relationship with these businesses we offered the full suite of digital services to our clients inclusive of digital creative, social media, paid search, SEO and of course digital media solutions.

We grew billings by 177%, exceeded all targets and finished the year winning an ICON award for the third year running.

#### Columbus

Columbus is Australia's number one search agency.

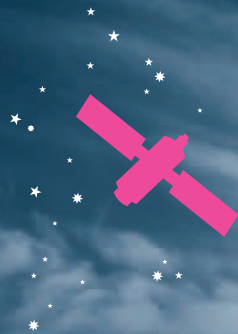
We provide paid and natural search strategy, management, and optimisation. We draw upon our partnerships, technology and people to develop search and performance marketing programs for many of Australia's top brands. Our specialists use innovative, data-driven approaches to create leads, drive sales and maximize return on investment for our clients.

Search marketing continued to grow in Australia up 16% for the year (source: IAB). We significantly outperformed the market, growing 43.6% and invested in people growing our headcount by 44%. We re-launched our SEO product offering and partnered with Google and Yahoo! to be first to market using new ad formats.

We spent a great amount of time reviewing technology providers in 2009, and in early 2010, we migrated all of our accounts to Omniture SearchCenter. To round out the year, our commitment to innovation continues with the review of Application Program Interface (API) usage in the retail space for ad copy and product management.



Our **growth** and **performance** has been **exceptional** both in our media and in our creative operations.



**1995**

Pay TV commenced in 1995 with the launch of Galaxy, Foxtel and Optus Vision



# Review of Operations

## Digital Division (continued)

### Visual Jazz

Visual Jazz continued its ongoing success in FY'10 with an impressive performance in building its staff, client base, and profitability to cement itself as one of Australia's leading Digital Creative Agencies.

During the year Visual Jazz continued building its core digital creative offer in website design and development, digital marketing, games, mobile, print and content creation as well as developing a solid strategic and social media team.

Significant business achievements were also enjoyed including retaining the Holden account and adding Fosters Group, Northern Territory Tourism, Jay Jays, MYOB, ANZ, Bakers Delight and Jetstar to its current impressive folio of blue chip clients. An impressive string of award wins were also enjoyed including the AIMIA Best Retail Site with Holden.com.au, international recognition by being shortlisted in the Cannes Cyber Lion Best Digitally Led Integrated Campaign for Defence Force Recruiting - Ocean Recon, and IAB Creative Showcase Q4 with Jay Jays Dance Off 3D campaign.

Overall an outstanding year for Visual Jazz.

### CATCH!

Successfully launched in September 2008 as a digital response agency, CATCH! has grown its offering to become a full service digital agency.

This change, encompassing strategy, media, search, social and creative, means we are well positioned for the future as clients demand better results from their digital advertising.

Notable client wins in FY'10 include NZHerald.co.nz, 2 Degrees Mobile and Brandlines (Chupa Chups). We've enjoyed particular success in the social media space, managing three client Facebook pages with over 40,000 fans each. These pages have amongst the largest fan bases in New Zealand.

CATCH! delivers a high quality end-to-end digital advertising solution. This position of leadership will win us more clients over the next year.

### Market Conditions

Online advertising expenditure in Australia for the 12 months ended 30 June 2010 totalled \$2.044 billion, an increase of \$238 million or 13% year on year (source: IAB).

Growth was led by search and directories at 16% (source: IAB).

The highest spending Advertiser Industry category in general advertising was finance followed by computers and communications with real-estate leading the way within classifieds (source: IAB).

### Outlook

We are in a communications revolution. Numerous luminaries and trade bodies point out that within three years, digital will take the largest share of the advertising market in Australia.

Yet behaviours are changing so quickly that adjusting our views and expectations to these new opportunities presents significant challenges to us all. As peer based review sites boom; for movies travel and restaurants, etc... where does that leave an individual looking for paid employment as a reviewer? And as people share their late night habits on Facebook, is privacy simply an issue for a former generation?

The challenge for agencies in the coming year will be to deliver meaningful insights on consumer behaviours and to ask clients to make demonstrable changes in their communications behaviour on the back of those insights.

As a business we will be building our analytics capabilities from an already strong position. We welcome the rise of demand side platforms and will be looking to invest in technologies that enable our clients to deliver more effective advertising. Each dollar will go further.

The outlook for the digital industry is very strong.

We confidently expect to continue to outperform the market.

Our **experiential and creative service** offering enjoyed **strong growth.**



**1999**

emitch was formed in 1999 and is now Australia's leading digital advertising and online marketing agency, combining creative and technical expertise to guarantee successful online marketing

# Review of Operations

## Diversified Division

The Diversified Division offers a full suite of complementary marketing services and brand communication, including public relations, brand experience, sponsorship management, mobile marketing, sports ground marketing, signage, broadcast solutions, digital publishing and talent management.

### Year in Review

In the context of economic and market conditions, the performance of our Diversified division was satisfactory over the 2010 financial year.

Each business performed profitably within softer than expected markets. Market conditions were very soft in the first half of the year, with all businesses showing strengthened activity over the second half.

Structural shifts occurred in a number of the markets of the division's businesses. The market surveillance available through the scale of our Group provided the opportunity for the affected businesses to identify these shifts early. We were therefore able to make and consolidate the structural changes required to counter and take advantage of these changes.

Of particular note is the strong growth enjoyed within our experiential and creative services offering. These activities have largely been grown through leveraging Group client relationships and have led to increased levels of client satisfaction as they enjoy high quality and integrated solution offerings. These relationships have allowed the Division to consolidate and grow its higher margin businesses.

This process of client development provided the basis to grow into new service areas as our customer base seeks greater centralisation of service delivery. We are now providing full service creative solutions to a number of major marketers with brands including Hudsons, Cruiser, Woodstock and Quest.

Other clients have sought to grow their relationship with the division into new markets; by way of example Haystac responded to Jetstar's request to provide an integrated PR service within one of their key markets, Singapore. The outcome has been the development of a sustainable PR practice in this market and an integrated regional service for this key client.

Servicing client demand for efficient access to integrated communication services over an expanding geographic territory has been a core element of the division's growth and will continue to fuel growth over the intermediate to long term. It provides the basis upon which the division has grown measures of:

- Client satisfaction;
- Business efficiency;
- Margin growth;
- Client retention.

The Group finalised the acquisition of Insite Organisation in the first half of FY'10. Insite is headquartered in Sydney and provides a broad range of communication and sponsorship services including media, media leverage, sponsorship and leverage, digital publishing and athlete management services to a blue chip client base.

### Companies within Diversified Division

#### Rights Management – Stadia Media and Mocom

Stadia Media offers a comprehensive range of stadium advertising and signage solutions at some of the most prestigious sports environments in Australia.

AFL revenues for the 2009 season were negatively influenced by the economic downturn with a season on season result down single digit year on year. On a positive note, AFL revenues confirmed to date for the 2010 season are now in excess of season 2009. As much of the critical sales cycle for 2010 was conducted within the softer period, the business has confidence that it will return to solid growth over FY'11.

2009/10 Cricket declined season on season by just over 10% due to economic conditions and the weakest international program in the four year touring cycle (West Indies and Pakistan). Strong presales activity with respect to the 2010/11 Ashes tour indicate that revenues in excess of 2009/10 levels are likely to be achieved.

Mocom is a specialist mobile marketing agency that develops and deploys mobile strategies and programs. Mocom provides clients with a portfolio of world leading mobile platforms, applications and programs which deliver a measurable return on investment.



# Review of Operations

## Diversified Division (continued)

The softer than anticipated market conditions restricted Mocom's revenue growth in FY'10 as brands were less likely to test their arm on a mobile marketing extension to their traditional advertising expenditures.

Growth in revenue was experienced in Q4 and new relationships with a major out of home company and a major newspaper group bode well for strong business performance over 2011.

### PR and Marketing Services - Haystac, Haystac Positive Outcomes, Rodeo, Spark and Impact

#### Haystac / Haystac Positive Outcomes / Rodeo

Haystac is a premier marketing and communications agency, operating three key brands and practice areas:

- Haystac
- Haystac Positive Outcomes (CSR / Social marketing)
- Rodeo (Studio and Digital Creative)

The underlying scale and diversity of offering allowed the agency to navigate a difficult year profitably.

Of particular note has been the very strong growth within the Rodeo business which was well positioned to advantage from the shift in client demand towards social media and digital communications solutions.

Following a soft market in the first half of FY'10, the agency enjoyed a stronger market in the second half with a greater level of briefs received as budgets recovered from the economic downturn. Government activity at a Federal and State level increased significantly over the second half.

With the softer than anticipated market conditions, a decision was made to defer establishing a physical Haystac presence in the Brisbane and Perth markets and concentrate on consolidating and strengthening the agency's offer within its existing network of offices in Melbourne, Sydney, Auckland and Singapore

Over the course of FY'10 the agency has continued to grow its Sydney practice with the commencement of Haystac Positive Outcomes and Rodeo in this market. Additionally the agency has established successful practice groups in both Singapore and Auckland.

The outlook for the agency over FY'11 is strong as it enjoys the benefit of the restructuring and consolidation undertaken during 2010. Whilst a strengthening market will result in a very competitive landscape, we have made significant investment into the growth practice areas of social media and digital along with a strengthened presence in the Sydney market. This investment will permit the agency to efficiently deliver the correct balance of skills to the market.

#### Spark Impact

Spark Impact provides consumer PR and experiential marketing and brand activation services.

Whilst this agency's PR business (Spark) was relatively flat for the year, the agency enjoyed very strong growth across its experiential offer (Impact). Overall the agency delivered billings growth in excess of 25% within a soft market.

The agency was relocated to co-locate with our Mitchell & Partners media agency during FY'10 and has demonstrated a strong capability to sell its service offering into the Mitchell & Partners client base. This has allowed the agency to fully integrate with the media offer building campaign effectiveness, client service efficiency and client satisfaction.

Impact continues to cement itself as one of the pre-eminent experiential marketing agencies in Australia delivering highly engaging and memorable consumer experiences for clients.

### Production Services - Coleman Group and Picture This! Productions

#### Coleman Group

Coleman Group specialises in the design, manufacture and installation of signage to large corporate clients in the sporting and exhibition industries.

The business delivered a profitable year within a very difficult market.

The business has seen erosion in its sports signage printing business as a number of its National Rugby League and Australian Rugby Union clients changed their signage technology from a scrolling signage technology to LED signage technology. Additionally the business entered FY'10 with the exhibition industry in a much weakened state.

In response to a decline in the Sports printing business, Coleman invested in building its exhibition production capability particularly in the area of high quality fabric printing. This investment allowed it to build a profitable share. The re-emergence in strength in the exhibition sector has positioned the company for good growth in FY'11.

Additional business growth is expected from within the experiential sector as the technologies used within the exhibition sector are integrated into our experiential offers.

### Picture this! Productions

Picture this! Productions is a leading media, event and broadcast solutions business.

The Group's video and event production capability was consolidated within this operating entity over FY'10. This integration has provided the business with the scale to offer economic production services and the ability to develop personnel in an industry that currently has a skills shortage.

In conjunction with Stadia Media, the business delivered all International Cricket event presentation within Australia for Cricket Australia. The integration with Stadia Media's commercial capability and core scoreboard operating responsibilities has led to further opportunities with the Australian Football League and the Football Federation Australia.

Further activity was conducted through Mitchell & Partners, Haystac, Rodeo and Spark Impact, confirming that an integrated production service can be sold through to the client base of other Group businesses.

The recently announced trading relationship with Southern Star Entertainment will further build this capability as the business consolidates a relationship with a leading production and program format owner, positioning the business extremely well to benefit from the market's increasing appetite for long format, integrated brand funded content.

### Market Conditions

FY'10 presented significant challenges to the division. The economic improvement forecast at the end of FY'09 was much slower and softer than anticipated as budgets were slow to return and the market took a very short term view.

A number of longer term structural changes were identified over the year with the affected businesses successfully restructuring to compensate.

Most notably these were:

- Shift in PR and marketing services budgets to social media and digital solutions;
- Shift in club based sportsground advertising (most notably rectangular field sports NRL, ARU, soccer) from scrolling signage to LED;
- Demand within Stadia Media's rights holders for production and supporter engagement services;
- Growing demand from marketers for consumer engagement and brand experience solutions;
- Growing demand for integrated communications solutions with a single point of access;
- Growth in appetite for integrated brand funded content from both a broadcaster and brand perspective.

In each case we have been able to establish capability to meet the market or deploy existing capability into stronger growth market segments. The division has enjoyed the benefit of this.

### Outlook

From a perspective of capability, structure and resource, the division is well positioned to re-enter a strong growth phase with improving economic conditions.

FY'10 provided the opportunity for the division to restructure and build capability and efficiency within the markets segments identified as offering profitable business growth.

Ongoing successes in cross company and cross division approach to client procurement and client management continues to offer a model to scale the business efficiently.

Key focus over the next financial period will be:

- Extending footprint of Haystac and Rodeo (along with Vivid) across the Mitchell network, with a primary focus on Brisbane and Perth;
- Leveraging our content creation capability across the broader Mitchell Communication Group footprint;
- Growth of Stadia Media's rights holdings, supporter engagement capability and consultancy revenues;
- Centralising division's business development capability to meet market demand for integrated communications solutions.

Market confidence and **willingness to invest in Technology solutions** improved considerably in FY'10.



## 2000

Online advertising figures are measured for the first time. Online is set to become the largest media sector in terms of ad spend by 2013



# Review of Operations

## Technology Division

The principle activities of the Technology division are the provision of Web design, Microsoft based application development, Web hosting services and marketing and advertising automation systems.

### Year in Review

The financial year ended 30 June 2010 produced a solid result for the Technology division, with over 88% of revenue due to repeat business from existing clients, a testament to the return on investment our solutions have been able to deliver.

The Technology division has recently completed a three year, \$2 million Research and Development program, supported by the Federal Government, which resulted in the development of a range of Microsoft based software products. Commercialisation of this Research and Development investment in FY'10 has been a great success, with 46% of the division's revenue now generated from this R&D investment.

Market confidence and willingness to invest in Technology solutions has improved considerably over the past 12 months, particularly in the area of eCommerce and advertiser sentiment to trading online. The Technology division has seen eCommerce revenues increase from 10% of the business to 21% over the past 12 months. We are confident this trend will continue into the future.

The Technology division continued to invest in Research and Development in FY'10, successfully completing the next evolution of the Agile automated ad templating system. The Agile software product is a web based application with inbuilt workflow allows for the management and creation of marketing material. The application of this Technology is obvious for advertisers, providing a unique asset management, automated artwork and template generation tool allowing marketers to generate wide spread efficiencies across their business.

### Companies within the Technology Division

#### Vivid Group

Vivid Group is a Microsoft Gold partner, specialising in Portals and Collaboration, Custom Application Development, Web Hosting solutions, online and search engine marketing, and digital creative design. Vivid Group is recognised as a leader in the Enterprise Content Management market in Australia with over 350 clients nationally. Vivid has offices in Perth and Melbourne.

#### Agile Automation

Agile provides a range of marketing and advertising automation solutions. Agile delivers the ability to automate and deploy marketing activity across all media to make the production process easier, faster and more efficient for advertisers.

### Market Conditions

Investment in Technology is continuing the trend towards "cloud based" solutions, effectively enabling advertisers to outsource highly complex Technology solutions and mitigate the need for any internal IT infrastructure or support costs. Cloud based solutions are driving down the total cost of ownership and making Technology solutions affordable to more organisations.

As Australian businesses return to profitability and refocus on growth, the Technology division is experiencing a significant lift in demand for our cloud based Intellectual Property which is focused on;

1. Internet eCommerce facing applications, presenting disparate data from different internal systems to consumers to transact online
2. Customer facing applications, offering existing customers self-service tools that increase customer satisfaction and drive down operating costs
3. Staff facing applications that assist workers through collaboration and workflow efficiencies



Our capabilities in **eCommerce** and **applications** along with **digital marketing and design** puts us in good stead to work with marketers adapting to **a new way of working.**



**2004**

Facebook is invented by Harvard University student Mark Zuckerberg. Six years later, more than 400 million people worldwide have a Facebook profile

# Review of Operations

## Technology Division (continued)

The market for cloud based Technology solutions is forecast to increase from \$17.4 billion internationally in 2010 to \$44.2 billion in 2013, an annual compound growth rate of over 35% over the next three years (Source: IDC, September 2009). Our capabilities in eCommerce and applications along with digital marketing and design put us in good stead to work with marketers adapting to a new way of working.

### Outlook

The core growth areas of opportunity focus around eCommerce as advertisers are quickly recognising that consumer spending has been going offshore due to a lack of quality and competitive eCommerce options domestically.

In 2005, Australian online shoppers reported making 86% of their total spend in Australia, but by December 2008 this had dropped to 57% (Source: Australian Payments & Clearing Association, July 2009).

We forecast this trend to reverse over the coming 12 months with many of Australia's largest retailers investing in significant eCommerce projects which are being driven by consumer demand. Now 91% of Australian online shoppers have purchased online with a credit card, and 51% prefer this method (Source: Nielsen Australian Online Retail Monitor).

eCommerce in Australia has an estimated growth of 9% annually to \$32 billion by 2012 (Source: Forrester Research, 2009). The Technology division of Mitchell Communication Group is very well positioned to assist the Group's blue chip advertisers to prosper from this growth in eCommerce.



Our Research business has **continued to grow**, with revenue from Australian based clients **more than doubling in FY'10.**



**2007**

Mitchell Communication Group was formed in 2007 as a diversified network providing services across traditional and digital media strategy, planning and buying, stadium advertising, branded content and brand marketing

# Review of Operations

## Research Division

The principal activities of the Research Division are to conduct consumer research and marketing analytics.

### Year in Review

Having established Symphony in the previous financial year, FY'10 was our first full year of operation.

### Symphony

Symphony conducts research and analytics into consumer markets, helping clients determine how to achieve the best results from their marketing and communications investment for their brand.

Symphony's services cover all forms of consumer research, including online consumer panel, telephone, secondary analysis and access to an online panel of over 25,000 Australians.

In the analytics field, Symphony offer econometric analysis helping clients optimise marketing investments.

Over the course of the year, the Research division has delivered a range of research and analytics services to key clients across the wider Group. Whilst our capabilities are in both ad hoc and continuous services, our strategic focus is on the latter. Through providing constant feedback to clients on the effect of their marketing investments we are able to improve performance over time. The real advantage that we offer through the wider Group is the ability to not only recommend changes, but to have our colleagues implement them.

Many clients have established relationships with research companies who provide services such as continuous brand tracking. Clients can be reluctant to change supplier relationships in this area, as the data may change. However, we are delivering brand tracker services.

Our analytics business is taking major strides forward. Over the course of the past 12 months we have significantly enhanced our capability in the area of modelling marketing return on investment. We are able to look at the role each medium has in delivering sales and profit results for our clients. Working with our colleagues across the Group, we have been able to reallocate investment to more effective channels.

One of our core clients has seen margin benefits running into millions of dollars as a result of our work. They have continued to engage us on an ongoing basis, and are looking to apply these analytics skills across more of their portfolio.

Overall, our business has continued to grow, with revenue from Australian based clients more than doubling over the course of the year.

### Market Conditions

Conditions in the market research sector have been challenging for the past few years, with two years of decline. Total global spend in FY'09 was estimated at \$902 million, representing a decline of 1.5% on the previous year (source: Ibisworld).

The research market in Australia is the 10th largest globally by revenue. Locally, it is a mature and highly competitive market dominated by several large players, with the top nine companies commanding over 70% of billings. This represents a larger concentration than the rest of the world, where an average of 51% of turnover is delivered through the top 10.

As in the rest of the world, quantitative research dominates in Australia, representing 53% of spend locally. Online is the main form of research with 20% of global spend, however Australia is one of the leading markets worldwide in online research, which represents 32% of spend, placing us third in the world behind Canada and Japan in this area (source: ESOMAR and Ibisworld).

Despite challenging market conditions, over the course of the year we secured a number of new research engagements and in most instances, these have led to further discussions about repeat projects.

Securing new clients, however, has been a major challenge, with businesses cautious about investing in research. Our experience indicates that businesses are retaining existing research suppliers or are choosing to defer research for a new budget year.

Many of the broader Group clients have expressed an interest in our analytics capabilities. It is a new area for many, and given that it requires a major commitment from clients to supply data it is perceived as high effort, with unknown return. This has delayed commitments to proceed across a number of proposals however we are confident about future prospects.

### Outlook

The outlook for 2010 is positive. Revenue is forecast to grow across the industry by 3.4% per annum over the five years to 2015 (source: Ibisworld).

Already in the new financial year, we have seen an increased level of interest in research and analytics. We continue to be especially optimistic about the prospects of analytics, particularly given that we have now delivered tangible results for clients in Australia. We are now not only able to make recommendations for improved marketing allocation, but we are also able to implement changes working with our colleagues across the Group.



The **experience, knowledge and talent** of our staff continues to be one of the key **strengths** of our Group.

## 2010

Now comprising 21 businesses, Mitchell Communication Group is a leading marketing and communications network at the forefront of the global communications landscape





# Review of Operations

## Human Resources

The experience, knowledge and talent of our staff continues to be one of the key strengths of the Mitchell Communication Group. We remain focused on providing a supportive, motivating workplace which allows our staff to progress and develop across all levels and all areas of our Company.

The foundation of our Human Resources strategy is based on the consideration of five key areas:

- A working environment designed to develop a dynamic and positive organisational culture that embraces quality values;
- Performance management which maximises the contribution of employees to the fulfilment of business priorities and goals;
- Learning and development to foster continual learning at the individual, team and organisational level;
- Policy and procedures to establish clear and consistent guidelines that are in line with current legislative requirements and best practice; and
- Strategic and risk management for ongoing review and alignment of resources to the Group's strategic plan.

In the last 12 months we have undertaken a number of activities designed to:

- Attract, secure and retain the most talented people in the market to work with us; and
- Train, develop and provide staff with the resources in order to do their job to the best of their ability now and into the future.

Some of the initiatives undertaken during the year have included:

- The introduction of an Innovation Program, where we have committed to devoting time and resources to building an innovation culture across the Group. The program has stemmed from the recognition that we operate in one of the fastest changing categories of business and commercial life. We must embrace innovation to continue to evolve, thrive and lead in this highly competitive industry. A pilot group with representatives from different staff levels and businesses across the Group is currently working through the initial phase of the program and we look forward to the program delivering long term success and impact across our Company.

- In further recognition of the importance of innovation to our businesses, this year we initiated the inaugural Mitchell Innovation Award. A Group-wide competition running throughout CY'10, the Mitchell Innovation Award formally recognises and celebrates outstanding campaigns developed for clients by individuals or teams across all of our businesses.

- We were pleased to fund the participation of 175 staff members in the Global Corporate Challenge, the world's largest corporate health initiative aimed at improving the fitness and wellbeing of participants. Benefits of the GCC include that it increases staff fitness, promotes teamwork, fosters a positive competitive spirit, is great fun and supports the workforce to be active, healthy and productive.

- Staff wellbeing and benefits such as the provision of a confidential and professional counselling service for our staff and their immediate families, subsidised flu vaccinations, access to discount private health insurance and discounted gym memberships for staff. Fresh fruit is delivered to our offices several times a week for all staff to enjoy.

Recruitment has also been a strong focus and our employee referral policy has proved successful.

Our continued aim is to ensure that Mitchells is an outstanding place to work, leading us to attract the best available people in every city in which we operate and provide those members of staff with an enjoyable and rewarding workplace.

Full time equivalent staff within the Group as at 30 June 2010 was 669, an increase of 15% over the previous year. We invested heavily in our future, our people.

# Case study

## Integrated approach works for Woolworths

### Woolworths multi-platform campaign to launch Prepaid Mastercard

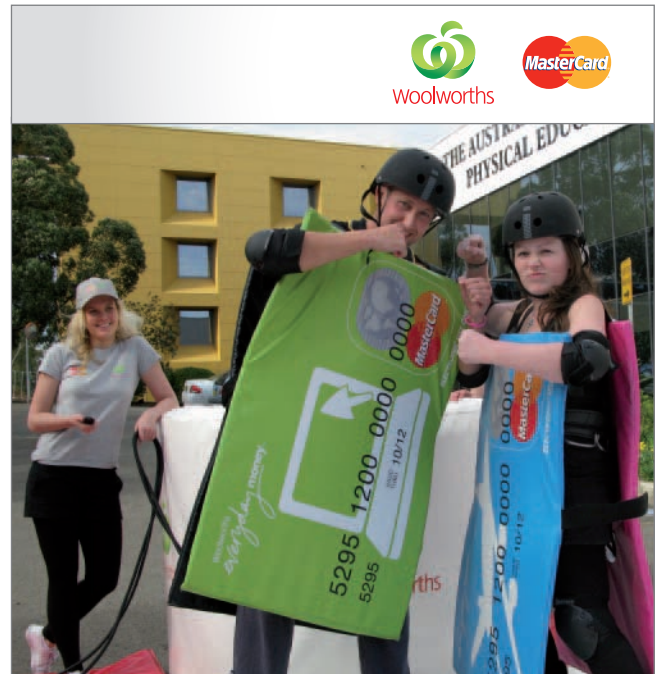
Woolworths is a trusted name for millions of Australians and has worked in partnership with the Mitchell Communication Group since 2002. This year, Woolworths tasked Mitchells with developing a multi-faceted, interactive campaign to launch the Woolworths Everyday Money Prepaid Mastercard.

Led by Mitchell & Partners, six businesses from across the Group collaborated to develop the concept for the campaign which incorporated sponsorship, online display, social media, search and experiential activity.

Having identified university students as a key audience for the pre-loaded debit cards, Mitchell & Partners negotiated Woolworths' sponsorship of the 2010 Australian University Games, which attract over 6,000 university athletes each year.

From the sponsorship, an integrated campaign was developed based around a Facebook promotion allowing students across Australia to vote for their favourite University. The Uni with the most votes at the end of the competition stood to win \$20,000 to help their athletes reach the Games.

Mitchell's Social Media Unit and digital creative agency Visual Jazz collaborated to build the Woolworths Prepaid Mastercard Facebook page, which has attracted more than 12,000 fans at the time of this report.



Digital agency Media Contacts managed online display advertising while Columbus Search implemented a key word campaign to drive users to the Facebook page.

Experiential agency Impact hyped up the competition through events at Uni's in Melbourne, Sydney and Brisbane in the lead up to the Games. Impact hosted horizontal bungee competitions at Uni's, giving students the chance to win loaded Woolworths Prepaid Mastercards and tickets to a VIP zone at the Games.

Queensland's James Cook University was crowned the overall winner with 2,519 votes, closely followed by Griffith University with 2,367 votes.

Steve Cook, Marketing Manager at Woolworths said of the campaign: "It's testament to the planning and our work with Mitchell Communication Group that we've been able to deliver a genuinely integrated campaign like this one. The results to date are very encouraging. We are already exceeding our targets for both the number of cards being sold in stores and the value of money being loaded onto the cards."

"We've successfully engaged with Uni students by speaking to them in a creative and interactive way. Importantly, this campaign lays the foundations for ongoing activity as new versions of the Prepaid MasterCard are rolled out."

# Corporate Social Responsibility

## Working in partnership with our clients, staff and suppliers to contribute to the wider community

This year, we continued to dedicate resources and leverage our networks and reputation to help the community. In FY'10, we supported more than 46 charities and organisations that make a real difference in the lives of Australians and New Zealanders by giving money, time and negotiating pro bono advertising time with our media partners.

Highlights of our community efforts in FY'10 include:

- Supporting our people to help school-aged children learn to read as part of the children's charity, Leaning Links' Reading for Life program.
- Using our strong media and publishing relationships to negotiate valuable pro bono advertising for more than 46 charities. In FY'10, we secured free air time for our community partners valued at \$10.1 million.
- Supporting staff volunteering activities. In FY'10, 156 of our people volunteered, with the Group contributing more than 2,265 hours in company time worth \$328,600. This involved staff providing their time free of charge to help our community-partner clients to get their messages out to the Australian and New Zealand public.
- Our Brisbane office team again leveraged their skills, expertise and industry networks to make a real difference for the Leukaemia Foundation's Shave for a Cure campaign. Mitchell & Partners Brisbane were named the number 1 fundraiser in Australia for the Leukaemia Foundation's 2010 World's Greatest Shave after raising \$178,448 in cash and in-kind donations. Eight of our staff in Queensland and one in Sydney even shaved their locks for the cause.
- We established a membership of the Red Cross Blood Bank's Club Red and provided transport and support for 44 staff members to make regular donations. We expect our involvement to grow in FY'11.
- Throughout the year, we provided office space and IT support for Good Company, an organisation which matches community groups with skilled volunteers.
- Our New Zealand team generated pro bono media space for two charities, Closet and Oxfam, to raise much-needed funds for the Haiti emergency relief efforts.

Sustainability is a priority in our CSR efforts and we are always looking for ways to reduce our impact on the environment. Construction on our new eco-friendly head office in York St, South Melbourne, is well underway and on schedule for completion by the end of CY'10. The building will have a 5-star environmental certification from the Green Building Council of Australia, with numerous environmental features including:

- Grey water harvesting: collection of waste water to be used in flushing of toilets.
- Chilled beams: using chilled water passing through piping embedded in the concrete slabs to keep the building cool.
- Solar energy: two banks of solar arrays on the roof.
- High performance glass: allows excellent lighting but reduced heat gain.
- Bicycle racks and showers for staff, to encourage riding to work.

We are a founding member of the London Benchmarking Group (LBG), a group of international businesses seeking to manage, measure and report on their involvement in the community. LBG has increased its membership to 49 in FY'10, up from 44 in the previous year.

Using LBG's measurement tools, we are able to monitor and track our community investments. In FY'10, 59% of our contributions were directed towards health-related causes, benefiting organisations such as the Cancer Council, Leukaemia Foundation, Juvenile Diabetes and the Wesley Research Institute. Other areas where our contributions were directed include education and young people; emergency relief; social welfare and the environment.



## Directors' Report

Your directors present their report on the consolidated entity ('Group') consisting of Mitchell Communication Group Limited and the entities it controlled at the end of, or during, the year ended 30 June 2010.

### Directors

The following persons were directors of Mitchell Communication Group Limited ('the company') at any time during the financial year or up to the date of this report:

**Harold C Mitchell AC** (Executive Chairman)  
**Stuart J Mitchell** (Chief Executive Officer)  
**Robert J Stewart**  
**Garry A Hounsell**  
**Rodney J Lamplugh**  
**Stephen A Cameron**  
**Naseema Sparks**  
**Peter G Nankervis** (resigned 15 January 2010)

### Principal activities

During the year the principal continuing activities of the Group consisted of:

- The provision of services to clients for communications strategy and the planning and buying of traditional media;
- The provision of services to clients for interactive marketing and communications strategy and planning and buying of interactive media and digital creative services;
- The development and implementation of communications campaigns across a broad range of disciplines including public relations, experiential marketing, brand experience, sponsorship, sports-ground marketing (including digital printing and signage), direct marketing, corporate social responsibility and video and event production services;
- The provision of branding, digital media, application management and automated ad Templating; and
- The provision of qualitative and quantitative research, marketing analytics, communication planning tools and processes.

### Dividends

Dividends paid to members during the financial year were as follows:

	2010	2009
	\$'000	\$'000
<b>Final dividend for the year ended 30 June 2009</b> of 2.1 cents (2008: 2.1 cents) per fully paid share paid on 2 October 2009 (2008: 26 September 2008). Fully franked (2008: fully franked) based on tax paid at 30%	6,271	6,048
<b>Interim Dividend for the year ended 30 June 2010</b> of 2.3 cents (2009: 1.9 cents) per fully paid share paid on 16 April 2010 (2009: 17 April 2009). Fully franked (2009: fully franked) based on tax paid at 30%	6,906	5,516
<b>Total</b>	<b>13,177</b>	<b>11,564</b>

Since the end of the financial year, and subject to the approval of the proposed scheme of arrangement with Aegis Group plc (for details refer to 'Subsequent Events' on page 37), the directors have approved the payment of a fully franked final dividend of 5 cents per share, \$15,088,060 (2009: \$6,271,285) to be paid on 8 November 2010.

The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2010 and will be recognised in subsequent financial reports.

### Review of operations

The directors' review of operations is contained on pages 12 to 33.

## Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

### (a) Acquisitions and new business operations:

During the financial year, Mitchell Communication Group completed the purchase of the following businesses:

- **Starcom Worldwide (WA)** (100%)
- **Insite Organisation** (100%)

Also during the financial 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.

(b)	2010
	\$'000
An increase in contributed equity of \$3,192,000 (2009: \$3,270,000) as a result of:	
Issue of 2,827,590 (2009: 7,134,839) shares under the Dividend Reinvestment Plan	2,275
Issue of 1,185,245 (2009: nil) fully paid ordinary shares as part consideration on the acquisition of Starcom Worldwide (WA)	1,025
Issue of 194,527 (2009: nil) fully paid ordinary shares on the exercise of options and performance rights	18
Transaction costs, net of tax	(126)
Net increase in share capital	<b>3,192</b>

## Earnings per share

	2010	2009
	Cents	Cents
<b>Basic earnings per share</b>	6.5	6.6
<b>Diluted earnings per share</b>	6.5	6.6

## Subsequent events

On 29 July 2010, Mitchell Communication Group ('Mitchells') 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 Mitchells for approximately \$363 million. Should the transaction proceed, shareholders will be able to elect to receive either \$1.20 in cash per Mitchells 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 Mitchells shares held. In addition, in the event the transaction is approved, Mitchells shareholders will receive the benefit of a fully-franked 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.

Except as discussed above, the directors' are not aware of any matter or circumstance that has occurred since the end of the financial year that has significantly affected, or may significantly affect the operations of the Group, the results of those operations or state of affairs of the Group in subsequent financial years.

## Likely developments and expected results of operations

Additional comments on expected results of the operations of the Group are included in this report under the review of operations and activities on pages 12 to 33.

Further information on likely developments in the operations of the Group and the expected results of operations has not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

## Environmental regulation

The Group is not subject to any significant environmental regulations.

## Directors' Report (continued)

### Information on directors

**Harold Mitchell AC** Executive Chairman. Age 68.

#### Experience and expertise

Non-executive director for 10 years. Executive Chairman since 25 May 2007. Founder and principal of Mitchell & Partners, Australia's largest media and communications group, with a growing presence in New Zealand and across the Asia-Pacific region. Active involvement in arts and charitable organisations.

#### Other current directorships

Vice-Chairman of the CARE Australia (from 2005), Chairman of the Melbourne Symphony Orchestra (from 2009), Chairman of ThoroughVision (from 2009), non-executive Chairman and majority owner of the Melbourne Rebels Rugby Union Team (from 2010), non-executive director of Tennis Australia (from 2009), Chairman of Art Exhibitions Australia (from 2010), Chairman of Television Sydney (from 2010) and non-executive director of Deakin Foundation (from 2009).

#### Former directorships in last 3 years

President of the Museums Board of Victoria (from 2001 – 2007), non-executive director of Copperart Holdings Limited (from 2006 – 2007), non-executive director of Opera Australian (from 1997 – 2009), non-executive director of CARE Australia (from 2006 – 2009).

#### Special responsibilities

Executive Chairman of the Board.

#### Interests in shares and options

92,845,158 ordinary shares in Mitchell Communication Group Limited. As at the date of this report the Mitchell & Partners Executive Share Plan Trust holds 1,877,727 shares in the company, which are included above. Mr H.C. Mitchell is the trustee of the Mitchell & Partners Executive Share Plan Trust but not a beneficiary thereof.

**Stuart Mitchell** Chief Executive Officer. Age 40.

#### Experience and expertise

Non-executive director for 10 years. Executive director since 25 May 2007. Involvement in media planning and buying operations since 1992.

#### Other current directorships

None.

#### Former directorships in last 3 years

None.

#### Special responsibilities

Chief Executive Officer.

#### Interests in shares and options

9,414,063 ordinary shares in Mitchell Communication Group Limited.



**Garry Hounsell** B.Bus (Acctg) FCA CPA FAICD. Deputy Chairman – non-executive. Age 55.

**Experience and expertise**

Director for 4 years. Former CEO and Country Managing Partner of Arthur Andersen and Senior Partner of Ernst & Young.

**Other current directorships**

Non-executive director of five other publicly listed companies: Chairman of PanAust Limited (director since July 2008), Qantas Airways Limited (director since 2005), Orica Limited (director since 2004), Nufarm Limited (director since 2004) and Dulux Group Limited (director since July 2010). Also chairman of Investec Global Aircraft Fund and a non-executive director of Ingeus Limited and Freehills.

**Former directorships in last 3 years**

Was formerly a chairman of Prudentia Investments and The Macfarlane Burnet Institute for Medical Research and Public Health Ltd.

**Special responsibilities**

Deputy Chairman of the Board.

Chairman of the Audit and Corporate Governance Committee from 15 January 2010.

Member of Human Resources, Remuneration and Nomination Committee from 16 October 2006.

**Interests in shares and options**

1,704,236 ordinary shares in Mitchell Communication Group Limited.

**Robert Stewart** LL.B (Hons), BCom, MBA (Harvard). Independent non-executive. Age 61.

**Experience and expertise**

Director for 10 years. Former national managing partner of major legal firm.

**Other current directorships**

Director of Melbourne IT Limited (since 1999) and Chairman of Baker IDI Heart & Diabetes Institute.

**Former directorships in last 3 years**

Non-executive director of Metabolic Pharmaceuticals Limited from 2007 to 2009.

**Special responsibilities**

Lead independent director.

Chairman of Human Resources, Remuneration and Nomination Committee.

**Interests in shares and options**

366,471 ordinary shares in Mitchell Communication Group Limited.

**Rodney Lamplugh** LL.B, B.Juris. Non-executive director. Age 47.

**Experience and expertise**

Director for 10 years. Legal practitioner specialising in commercial, media and intellectual property law.

**Other current directorships**

None.

**Former directorships in last 3 years**

None.

**Special responsibilities**

Member of the Audit and Corporate Governance Committee.

**Interests in shares and options**

1,084,908 ordinary shares in Mitchell Communication Group Limited.

## Directors' Report (continued)

### Information on directors (continued)

**Stephen Cameron** Independent non-executive director. Age 58.

#### Experience and expertise

Director for 4 years. Senior advertising and marketing executive with over 35 year's industry experience.

#### Other current directorships

None.

#### Former directorships in last 3 years

None.

#### Special responsibilities

Member of the Audit and Corporate Governance Committee.

#### Interests in shares and options

78,499 ordinary shares in Mitchell Communication Group Limited.

**Naseema Sparks** B Pharm, M Pharm (Pharmacol), MBA, GAICD. Independent Non-executive director. Age 57.

#### Experience and expertise

Director for 3 years. Background in pharmacology and strategic consulting. Senior Advertising Agency executive for 13 years. Formerly Managing Director and Partner of M&C Saatchi.

#### Other current directorships

Non-executive director of Blackmores Ltd (director since 2005); Deputy Chair of Osteoporosis Australia, Director of Sydney Dance Company, Director of PMP Ltd and National President of Chief Executive Women.

#### Former directorships in last 3 years

Non-executive director of Racing Victoria Limited from 2007 to December 2008 and Vice President of the Melbourne International Arts Festival, (until December 2008).

#### Special responsibilities

Member Human Resources, Remuneration and Nomination Committee.

#### Interests in shares and options

None.

## Former Directors

**Peter Nankervis** B Ec. (Hons), FCPA, GAICD. Independent non-executive director. Age 60.

### Experience and expertise

Resigned 15 January 2010 after being a director for over 2 years. Senior financial executive with more than 30 years experience. Formerly Finance Director of Cadbury Schweppes Australia and CFO of Cadbury Schweppes Asia Pacific.

## Company Secretaries

**Mr Andrew Seaburgh** FCPA.

Mr Seaburgh was appointed on 4 October 2005. Mr Seaburgh has many years experience as a senior finance executive and company secretary in various industries for over 30 years.

**Mr Dion Cust** B.Bus CA

Mr Cust was appointed to the position of company secretary on 23 August 2005. Mr Cust has been the CFO of Mitchell Communication Group Limited for the past 10 years, and prior to that he worked as a chartered accountant for a major chartered accounting firm.

## Meetings of directors

The numbers of meetings of the company's Board of directors and of each Board Committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director were:

	Meetings of Committees					
	Full meeting of Directors		Audit and Corporate Governance		HR/Remuneration Nomination	
	A	B	A	B	A	B
H C Mitchell	9	9	*	*	*	*
S J Mitchell**	9	9	1	4	2	3
G A Hounsell***	9	9	3	4	3	3
R J Stewart	9	9	*	*	3	3
R J Lamplugh	9	9	4	4	*	*
S A Cameron	8	9	3	4	*	*
N Sparks	8	9	*	*	3	3
P G Nankervis (resigned 15 January 2010)	4	5	2	2	*	*

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the Committee during the year

\* = Not a member of the relevant Committee

\*\* = S J Mitchell attended the Committee meetings as an observer

\*\*\* = Until 15 January 2010, G A Hounsell attended the Audit and Corporate Governance Committee meetings as an observer

## Retirement, election and continuation in office of directors

Mr Peter Nankervis resigned as a director on 15 January 2010. There were no other changes to directors during the year-ended 30 June 2010.



## Directors' Report (continued)

### Remuneration Report

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

#### A Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure that reward for performance is competitive with the market and appropriate for the results delivered. The framework aligns executive reward with the achievement of company goals, and therefore, the creation of value for shareholders. The Board, through the Human Resources, Remuneration and Nomination Committee, ensures that executive rewards satisfy the following criteria:

- Competitiveness in the marketplace;
- Acceptability to shareholders; and
- Alignment to performance.

The framework is aligned to shareholders' interests in that it:

- has revenue and profit growth as a core component of the framework, and
- assists in attracting and retaining high calibre executives.

The framework is aligned to the executives' interests in that it:

- rewards capability and performance;
- reflects competitive reward for contribution to profit and shareholder growth; and
- provides a clear structure for earning rewards.

The Human Resources, Remuneration and Nomination Committee provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors. The Corporate Governance Statement provides further information on the role of this committee.

The framework consists of a mix of fixed pay, short and long term incentives.

#### Non-Executive directors

Fees and payments to non-executive directors reflect the demands, which are made on, and the increasing responsibility of, the directors. Non-executive directors' fees are reviewed annually by Human Resources and the Remuneration and Nomination Committee, on behalf of the Board. The Chairman does not receive remuneration for his role.

#### Directors' fees

The current global limit on directors' remuneration is \$1,500,000 and was set on 28 November 2007. Directors who chair Committees receive additional fees.

No retirement allowances are payable to directors.

The following fees (excluding superannuation) have applied:

Base fee	2010	2009
Chairman	Nil	Nil
Deputy chairman	\$100,000	\$120,000
Other non-executive directors	\$60,000	\$80,000
Additional Fees		
Audit and Corporate Governance Committee chairman	\$15,000	\$15,000
Human Resources, Remuneration and Nomination Committee chairman	\$15,000	\$15,000

## Executive Pay

The executive pay and reward framework has three components:

- base pay and benefits
- short and long term performance incentives
- other remuneration such as superannuation

The combination of these comprises the executive's total remuneration.

## Base Pay

Structured as a total employment cost, which may be delivered as a mix of cash and non-financial benefits within approved guidelines at the discretion of the executive.

Executives are offered a competitive base pay, which is reviewed annually on 1 July to ensure it remains competitive with the market for a comparative role. There are no guaranteed base pay increases for executives.

## Benefits

Executives can receive car fringe benefits as part of their total remuneration package.

## Short-term Incentives

Should the company reach pre-determined revenue and profit targets set by the Board, and achieve personal performance based indicators, senior executives are entitled to short-term incentives. The targets are set so as to ensure shareholder value is increased and the maximum available incentive is only available for out-performance.

Each executive has a profit target, along with individual non-financial performance objectives aligned to their key performance indicators and linked to the drivers of performance in future reporting periods including staff management, systems improvement and strategy development.

## Long-term Incentives

Performance rights are granted to certain executives as part of their total remuneration package. The value of a performance right attributed to the total remuneration package is independently valued using the Monte Carlo approach. All grants of performance rights vest to shares over a 3 year period, subject to vesting conditions and performance conditions. The performance conditions comprise Total Shareholder Return ('TSR') and Earnings Per Share ('EPS').

The Human Resources, Remuneration and Nomination Committee are responsible for assessing whether targets and KPI's have been met. To help make this assessment, the Committee receives detailed reports on performance from management.

## Mitchell Communication Group Limited Performance Rights Plan and Employee Option Plan

Information on the Mitchell Communication Group Limited Performance Rights Plan and Employee Option Plan is set out in note 31 to the financial statements.

## B Details of remuneration

### Amounts of remuneration

Details of the remuneration of the directors and key management personnel (as defined in AASB 124 Related Party Disclosures) of Mitchell Communication Group Limited and the Group are set out in the following tables. The key management personnel of Mitchell Communication Group Limited and the Group includes the directors as per pages 38 to 41 above and the following five executive officers, who have authority and responsibility for planning, directing and controlling the activities of the entity:

- Luke Littlefield – Chief Operating Officer
- John Murray – Managing Director – Digital
- Anthony Charles – Managing Director – Diversified
- Paul Davey – Managing Director – Media
- Dion Cust – Chief Financial Officer

In addition the following employees must be disclosed under the Corporations Act 2001 as they are among the five highest remunerated Group executives:

- Teena Jameson – Managing Director – Mitchell & Partners (QLD) Pty Ltd
- Allen Scash – Managing Director – Mitchell & Partners (VIC) Pty Ltd
- Andrew Norris – Managing Director – Mitchell & Partners (NSW) Pty Ltd

The cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed 'Short-term Incentives' above.

## Directors' Report (continued)

### Remuneration Report

#### B Details of remuneration (continued)

Key management personnel of the Group and other executives of the company and the Group

2010	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary benefits	Super-annuation	Long service leave	Shares and options	
Name	\$	\$	\$	\$	\$	\$	\$
<b>Non-executive directors</b>							
G A Hounsell	100,000	-	-	9,000	-	-	109,000
R J Stewart	75,000	-	-	6,750	-	-	81,750
R J Lamplugh	40,000	-	-	25,400	-	-	65,400
S A Cameron	60,000	-	-	5,400	-	-	65,400
P G Nankervis*	32,482	-	-	21,546	-	-	54,028
N Sparks	60,000	-	-	5,400	-	-	65,400
<b>Sub-total non-executive directors</b>	<b>367,482</b>	<b>-</b>	<b>-</b>	<b>73,496</b>	<b>-</b>	<b>-</b>	<b>440,978</b>
<b>Executive directors</b>							
H C Mitchell AC	-	-	-	-	-	-	-
S J Mitchell	185,426	124,500	-	21,600	634	-	332,160
<b>Other key management personnel</b>							
L Littlefield^	290,000	80,000	-	25,000	500	-	395,500
J N Murray^	366,973	50,000	23,280	33,027	1,311	-	474,591
A Charles	275,229	22,936	-	26,835	5,320	-	330,320
P Davey	275,229	-	-	24,771	307	-	300,307
D G Cust	189,925	10,000	21,084	18,991	4,112	-	244,112
<b>Total key management personnel compensation</b>	<b>1,582,782</b>	<b>287,436</b>	<b>44,364</b>	<b>150,224</b>	<b>12,184</b>	<b>-</b>	<b>2,076,990</b>
<b>Other Group executives</b>							
T Jameson^	361,229	-	-	101,821	11,548	-	474,598
A Scash^	275,640	30,000	-	54,360	10,837	-	370,837
A Norris^	275,229	27,523	-	27,248	2,390	31,582	363,972

\* Resigned 15 January 2010.

^ Denotes one of the five highest paid executives of the Group, as required to be disclosed under the Corporations Act 2001.

Key management personnel of the Group and other executives of the company and the Group

2009	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary benefits	Super-annuation	Long service leave	Shares and options	
Name	\$	\$	\$	\$	\$	\$	\$
<b>Non-executive directors</b>							
G A Hounsell	120,000	-	-	10,800	-	-	130,800
R J Stewart	95,000	-	-	8,550	-	-	103,550
R J Lamplugh	60,000	-	-	27,200	-	-	87,200
S A Cameron	80,000	-	-	7,200	-	-	87,200
P G Nankervis	28,945	-	-	74,605	-	-	103,550
N Sparks	80,000	-	-	7,200	-	-	87,200
<b>Sub-total non-executive directors</b>	<b>463,945</b>	<b>-</b>	<b>-</b>	<b>135,555</b>	<b>-</b>	<b>-</b>	<b>599,500</b>
<b>Executive directors</b>							
H C Mitchell AC	-	-	-	-	-	-	-
S J Mitchell^	343,750	-	-	30,937	1,932	-	376,619
<b>Other key management personnel</b>							
L Littlefield^	265,000	-	-	50,000	610	212,500	528,110
J N Murray^	343,693	-	23,280	33,027	2,037	11,928	413,965
J White*	275,229	-	-	24,771	2,976	-	302,976
A Charles	275,229	-	-	24,771	8,670	-	308,670
D G Cust	189,925	-	21,084	18,991	1,765	4,470	236,235
<b>Total key management personnel compensation</b>	<b>1,692,826</b>	<b>-</b>	<b>44,364</b>	<b>182,497</b>	<b>17,990</b>	<b>228,898</b>	<b>2,166,575</b>
<b>Other Group executives</b>							
T Jameson^	340,855	-	-	100,002	13,796	-	454,653
A Scash^	266,602	25,000	-	63,398	6,574	-	361,574

^ Denotes one of the five highest paid executives of the Group, as required to be disclosed under the Corporations Act 2001.

\* Ceased employment with Mitchell Communication Group on 31 July 2009.



## Directors' Report (continued)

### Remuneration Report

#### B Details of remuneration (continued)

The relative proportions of contracted full-year remuneration that are linked to performance and those that are fixed are as follows:

	Fixed remuneration		At risk – STI	
	2010	2009	2010	2009
<b>Executive directors and other key management personnel</b>				
S J Mitchell	66.7%	62.7%	33.3%	37.3%
L Littlefield	70.0%	67.7%	30.0%	32.3%
J N Murray	80.0%	79.2%	20.0%	20.8%
A Charles	75.9%	74.1%	24.1%	25.9%
D Cust	100.0%	100.0%	0%	0%
P Davey	100.0%	-	0%	-

#### Analysis of bonuses included in remuneration

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each director of the company and each of the key management personnel are detailed below.

	STI Bonus		
	Included in remuneration \$	% vested in year	% forfeited in year
<b>Executive directors</b>			
S J Mitchell	124,500	50%	50%
<b>Other key management personnel</b>			
L Littlefield	80,000	53%	47%
J N Murray	50,000	48%	52%
A Charles	22,936	22%	78%

#### C Service Agreements

On appointment to the Board, all non-executive directors enter into a service agreement with the company in the form of a letter of appointment, which summarises the Board policies and terms, including compensation, relevant to the director.

Remuneration and other terms of employment for the Chief Executive Officer, Chief Financial Officer and other key management personnel are also formalised in service agreements. Some of these agreements provide for the provision of performance-related cash bonuses and participation, when eligible, in the Mitchell Communication Group Limited Performance Rights Plan and Employee Option Plan. Other major provisions of the agreements relating to remuneration are set out below.

##### S J Mitchell, Chief Executive Officer

- Agreement, dated 25 May 2007, may be terminated by either party giving six months notice.
- Short-term incentive bonus based on achievement of agreed performance indicators, both financial and non-financial to a maximum of \$250,000. Additional incentive payable for internal budget out-performance.
- Annual remuneration package, inclusive of superannuation, for the year ending 30 June 2011 of \$500,000, reviewed annually by the Board.
- Payment in lieu of notice capped at six months salary.

#### **L Littlefield**, Chief Operating Officer

- Agreement, dated 3 December 2007, may be terminated by either party giving 90 days notice.
- Short-term incentive bonus based on achievement of agreed performance indicators, both financial and non-financial to a maximum of \$150,000. Additional incentive payable for internal budget out-performance.
- Base salary, inclusive of superannuation, for the year ending 30 June 2011 of \$350,000, to be reviewed annually by the Human Resources, Remuneration and Nomination Committee.
- Payment of termination benefit is capped at three month's salary.

#### **A Charles**, Managing Director – Diversified

- Agreement, dated 27 May 2002, may be terminated by either party giving 90 days notice.
- Short-term incentive bonus based on achievement of agreed performance indicators, both financial and non-financial to a maximum of \$105,000. Additional incentive payable for internal budget out-performance.
- Base salary, inclusive of superannuation, for the year ending 30 June 2011 of \$330,000, to be reviewed annually by the Human Resources, Remuneration and Nomination Committee.
- Payment of termination benefit is capped at three month's salary.

#### **J Murray**, Managing Director – Digital

- Agreement, dated 9 January 2007, may be terminated by either party giving 90 days notice.
- Short-term incentive bonus based on achievement of agreed performance indicators, both financial and non-financial to a maximum of \$105,000.
- Base salary, inclusive of superannuation, for the year ending 30 June 2011 of \$420,000, to be reviewed annually by the Human Resources, Remuneration and Nomination Committee.
- Payment of termination benefit is capped at three month's salary.

#### **P Davey**, Managing Director – Media

- Agreement, dated 18 August 2009, may be terminated by either party giving 8 weeks notice.
- Base salary, inclusive of superannuation, for the year ending 30 June 2011 of \$300,000, to be reviewed annually by the Human Resources, Remuneration and Nomination Committee.
- Payment of termination benefit is capped at three month's salary.

#### **D Cust**, Chief Financial Officer

- Agreement, dated 19 February 2001, may be terminated by either party giving 30 days notice.
- Base salary, inclusive of superannuation, for the year ending 30 June 2011 of \$230,000, to be reviewed annually by the Human Resources, Remuneration and Nomination Committee.
- Payment of termination benefit is capped at one month's salary.

#### **D Share-based compensation**

Options are granted under the Mitchell Communication Group Limited Employee Option Plan ('Option Plan'). The plan is now closed to all employees and directors. Options were granted under the Mitchell Communication Group Limited Employee Option Plan, which was created prior to the listing of the company but included in the prospectus dated 9 February 2000. All staff were eligible to participate in the plan (including directors). Options were granted under the plan for no consideration. Options granted under the plan carry no dividend or voting rights, and were granted at the discretion of the Human Resources, Remuneration and Nomination Committee.

There were no performance rights issued to the directors or key management personnel of the company under the Mitchell Communication Group Limited Performance Rights Plan during the financial year.

## Directors' Report (continued)

### Remuneration Report

#### D Share-based compensation (continued)

The terms and conditions of each grant of options affecting remuneration in this and previous reporting periods are as follows:

Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
29 November 2005	28 November 2010	\$0.60	\$0.203	29 November 2007
29 November 2005	28 November 2010	\$0.70	\$0.182	29 November 2007
29 November 2005	28 November 2010	\$0.80	\$0.164	29 November 2007
2 October 2006	2 October 2011	\$0.55 *	\$0.290	2 October 2008
2 October 2006	2 October 2011	\$0.65 *	\$0.258	2 October 2008
2 October 2006	2 October 2011	\$0.75 *	\$0.290	2 October 2008
23 November 2006	28 November 2011	\$0.75 *	\$0.599	29 November 2008
23 November 2006	28 November 2011	\$1.05 *	\$0.463	29 November 2008
2 April 2007	2 April 2012	\$1.42 *	\$0.288	2 April 2009
2 April 2007	30 September 2011	\$1.55 *	\$0.234	1 October 2008
29 November 2007	29 November 2012	\$1.50	\$0.168	29 November 2009

\* The dilution to existing shareholders caused by the rights issue has led to a reduction in the exercise price of options on issue at the date of the rights issue. The reduction was 4.7 cents per option.

When exercisable, each option is convertible into one ordinary share. Options may only be exercised in accordance with the company policy on trading in securities. The exercise price of options is determined by the Human Resources, Remuneration and Nomination Committee at the date of grant. Further information on the options is set out in note 22 and 31 to the financial statements.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are determined using an enhanced Hull-White Trinomial Lattice option pricing model that takes into account the exercise price, the term of the option, the vesting criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Whilst no options were granted during the year ended 30 June 2009 or 2010, the model inputs for options granted during the year ended 30 June 2008 included:

- (a) 2008: options are granted for no consideration, and vest two years after grant date
- (b) 2008: exercise price of \$1.50
- (c) 2008: grant date of 29 November 2007
- (d) 2008: vesting date of 29 November 2009
- (e) 2008: expiry date of 29 November 2012
- (f) 2008: share price at grant date of \$1.17
- (g) 2008: expected price volatility of the company's shares between 21% and 42%
- (h) 2008: expected dividend yield between 3.9% and 5.5%
- (i) 2008: risk-free interest rate of 6.25%

#### Shares provided on exercise of remuneration options

During the financial year, there were no remuneration options exercised, as such no ordinary shares in the company were provided as a result of the exercise of remuneration options to key management personnel of the Group (2009: nil)

## E Additional information

### Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current year. Over the past five years, the Group's profit from ordinary activities after income tax has grown at a rate of 69%\* per annum, and total shareholder return has grown at a rate of 35%\* per annum. During the same period, total executive remuneration has grown at a rate of 23%\* per annum.

### Share-based compensation: options and shares

There were no options or shares issued to directors, key management personnel or any of the five highest paid executives during the year ended 30 June 2010.

### Loans to directors

There were no loans to directors at 30 June 2009 and 30 June 2010, as set out in note 22 to the financial statements.

### Shares under option

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

#### Mitchell Communication Group Limited Employee Option Plan options

Number	Issue price of shares	Grant date	First exercise date	Expiry date
121,534	\$0.55	2 Oct 2006	2 Oct 2008	2 Oct 2011
121,534	\$0.65	2 Oct 2006	2 Oct 2008	2 Oct 2011
121,534	\$0.75	2 Oct 2006	2 Oct 2008	2 Oct 2011
300,000	\$1.55	2 April 2007	1 Oct 2008	30 Sept 2011
<b>664,602</b>				

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

### Shares issued on the exercise of options

There were 26,796 ordinary shares of Mitchell Communication Group Limited issued during the year ended 30 June 2010 on the exercise of options granted under the Mitchell Communication Group Limited Employee Option Plan.

### Insurance of officers

During the period, Mitchell Communication Group Limited paid a premium of \$72,441 to insure the directors and officers of the company and its controlled entities.

The liabilities insured are costs and any damages, judgments or settlements that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group.

### Proceedings on behalf of company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

\* Compound annual growth rate



## Directors' Report (continued)

### Non-audit services

During the year ended 30 June 2010, the company did not use the auditor (PricewaterhouseCoopers) for any non-audit related services.

Details of the amounts paid or payable to the auditor for audit services provided during the year are set out below.

	Consolidated	
	2010	2009
	\$	\$
During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:		
<b>Audit services</b>		
<b>PricewaterhouseCoopers – Australian firm:</b>		
Audit and review of financial reports and other audit work under the Corporations Act 2001	251,456	317,212
Agreed upon procedures	5,000	10,000
Related practices of PricewaterhouseCoopers Australian firm	20,000	31,288
<b>Total audit and other assurance services</b>	<b>276,456</b>	<b>358,500</b>

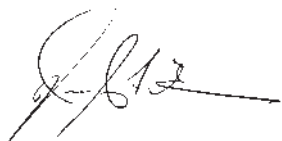
### Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 51.

### Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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



**Harold C Mitchell AC**  
Executive Chairman

Melbourne, 30 September 2010

PricewaterhouseCoopers  
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## Auditor's Independence Declaration

As lead auditor for the audit of Mitchell Communication Group Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Mitchell Communication Group Limited and the entities it controlled during the period.



Nadia Carlin  
Partner  
PricewaterhouseCoopers

Melbourne  
30 September 2010

## Corporate governance statement

Mitchell Communication Group Limited ('the company') and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The corporate governance framework is continually reviewed to ensure best practice developments are incorporated. Changes to the company's governance arrangements made in the course of the last year are highlighted in this statement.

The company acknowledges the requirement to report against the Revised Principles released on 2 August 2007 in the annual report for the financial year ended 30 June 2010.

A description of the company's main corporate governance practices are set out below. All these practices, unless otherwise stated, were in place for the entire year. In order to assist shareholders understand the approach taken by the company to corporate governance, the report has been set out using the same headings as used by the ASX Corporate Governance Council's "Principals of Good Corporate Governance".

### Principle 1

#### Lay Solid Foundations for Management and Oversight

The Board of directors is responsible for guiding and monitoring the company on behalf of the shareholders by whom it is elected and to whom it is accountable. In discharging its stewardship it makes use of sub-Committees which are able to focus in greater detail on relevant issues in their areas of responsibility. The current sub-Committees are Human Resources, Remuneration and Nomination Committee and Audit and Corporate Governance Committee.

#### The key functions of the Board of directors are:

- to set strategic direction and to manage and monitor strategy against key objectives and targets;
- adopting the annual budget and monitoring performance on a regular basis;
- appointment and removal of the CEO and setting appropriate remuneration and performance targets;
- appointment and removal of the company secretary;
- approval of the appointment and removal of the Chief Financial Officer;
- monitoring and reviewing the performance of management;
- set in place effective audit, compliance and control mechanisms;
- ensuring the company has effective risk management processes;
- approving and monitoring financial and other reporting;
- approving and monitoring the progress of major capital expenditure, acquisitions and divestitures;
- reviewing Board performance and remuneration and ensuring a formal and transparent Board nomination process;
- ensuring that the company complies with the law and has a high standard of ethical behaviour; and
- monitoring and managing potential conflicts of interest of management, Board members and shareholders.

#### Management's responsibilities are:

- to be responsible to the Board for the overall performance of the company;
- establishing the strategic direction of the company in conjunction with, and for approval by the Board;
- implementing decisions in accordance with the strategic direction of the company as approved by the Board;
- providing leadership and direction for all staff;
- maintaining an effective risk management and internal control system;
- ensuring integrity and timeliness of reporting to the Board and shareholders; and
- ensuring that all management and staff comply with company policies.

The Chairman's role is to ensure that the relationship between the Board, management, shareholders, other stakeholders and the individual directors is effective, efficient and furthers the best interests of the company, shareholders, the Board and other stakeholders.

The Board meets on a regular basis, with special meetings called if required between scheduled meetings. Agendas are established to ensure proper coverage of strategic, financial and major risk areas throughout the year.

## Principle 2

### Structure the Board to Add Value

The Constitution of Mitchell Communication Group Limited allows for the appointment of up to twelve directors. There are currently seven directors. Five directors are non-executive, four of whom are considered independent by the Board. The directors have been chosen so as to provide an appropriate mix of experience and qualifications for the governance of the company.

The Board of Mitchell Communication Group appreciates the need for corporate transparency and accountability whilst also balancing the need for skills, commitment, effective knowledge management and workable Board size. The current level of skill and experience is appropriate to ensure the highest level of scrutiny.

Mr Rob Stewart, lead independent director, Mr Garry Hounsell, Deputy Chairman, Mr Stephen Cameron and Ms Naseema Sparks are independent under ASX guidelines.

Mr Rod Lamplugh is not independent under ASX guidelines (being associated directly with a substantial shareholder); however he brings formal legal qualifications, which are highly regarded by the Board and management.

Mr Harold Mitchell, whilst not an independent director (because he is Executive Chairman), has extensive industry experience and knowledge and, as the founder of Mitchell & Partners, a company now owned by Mitchell Communication Group Limited, he adds significant knowledge and strategic vision at Board level as Executive Chairman. This is a departure from ASX corporate governance recommendations, however the Board believes the Chairman is able, and does, bring quality and independent judgement to all relevant issues falling within the scope of the role of the Chairman.

Mr Stuart Mitchell (Chief Executive Officer), whilst also not independent under ASX Guidelines, brings a combination of professional expertise and industry knowledge (media placement) to the Board. These skills are highly regarded by the company's Board.

In summary, the company's Board has a majority of independent directors, and the Board believes the current structure is appropriate for the company and its current state of development. The company's Code of Conduct also ensures that directors are aware of their responsibilities in areas such as conflicts of interest and related party transactions.

The Board is committed to developing an ongoing dialogue with its key stakeholders over any matters of concern with Board structure and/or independence.

The company recognises the need for a clear division of responsibility at the head of the company and as such, the roles of Chairman and CEO roles have been separated.

Materiality is assessed on a case-by-case basis by reference to each director's individual circumstances rather than applying materiality thresholds.

One third of directors must retire from office at the time of the Annual General Meeting each year. Directors are eligible for re-election. The directors who retire by rotation are those with the longest period in office since their appointment or last election. At the time when any director is coming up for re-election, the Board considers that question and makes a conscious decision as to whether to recommend the re-election to shareholders.

Directors and Board Committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

The Board has established a Human Resources, Remuneration and Nominations Committee. This Committee has the responsibility for ensuring that proper human resource management and remuneration policies are developed and followed by the company and for assisting the Board in reviewing the performance of the Board, its committees and individual directors and in selecting any new directors. The committee follows the policy set down by the Board for appointment of new directors.

The Committee is chaired by Mr Rob Stewart.

Details of directors' attendance at Human Resources, Remuneration and Nominations Committee meetings are set out in the Directors' Report.



## Corporate governance statement (continued)

The Committee's responsibilities include:

- assisting in the annual performance review of the CEO;
- recommending to the Board the compensation and key performance targets for the CEO;
- assisting in the performance review of the Board;
- identifying, evaluating and recommending suitable candidates for appointment as directors;
- recommending to the Board appropriate remuneration policies for non-executive directors;
- approving compensation packages and performance targets for senior executives;
- succession planning for the Board, CEO and key executives;
- review of human resource and remuneration policies and practices for the company as brought forward by the CEO and where appropriate, recommend adoption by the Board; and
- review and approve recommendations from the CEO on appointments and terminations to senior executive positions reporting to the CEO with the exception of the CFO and company secretary whose appointment or termination must be approved by the Board.

The Charter of the Human Resources, Remuneration and Nominations Committee can be viewed on the company's website.

### Principle 3

#### Promote Ethical and Responsible Decision-Making

The company has a Code of Conduct applicable to all directors and staff. The Code is based on the premise that, in all conduct, the company directors and staff are to act honestly, diligently, lawfully and fairly. The Code is regularly reviewed and updated to ensure it reflects the highest standards of behaviour and professionalism. A copy of the Code is available on the company's website.

The company has also developed a Securities Trading Policy. This applies to all directors, senior executives and staff and sets out the approach to be followed should any of them wish to buy or sell Mitchell Communication Group Limited securities. A copy of this policy can also be viewed on the company's website.

### Principle 4

#### Safeguard Integrity in Financial Reporting

The Board has established an Audit and Corporate Governance Committee with responsibility for ensuring that proper accounting and auditing practices are maintained; that business risks are identified and managed effectively; that assets are protected against financial loss; and that legal and regulatory obligations are met.

The Audit and Corporate Governance Committee is chaired by Mr Garry Hounsell. The committee had three members (including the chairman) and is comprised of majority, independent non-executive directors. Details of directors' attendance at Audit and Corporate Governance Committee meetings are set out in the Directors' Report.

The Committee also receives regular reports from the external auditors concerning any matters which arise in connection with the performance of their role, including adequacy of internal controls. The Committee reports to the Board on its activities after each meeting and copies of the minutes of the Committee's meetings are provided to all directors.

#### Its role includes:

- reviewing reports submitted by external auditors;
- reviewing and recommending to the Board for approval half-yearly and annual financial statements;
- reviewing the performance of the auditors and recommending to the Board any change in the company's auditors;
- monitoring and confirming to the Board the continuing independence of the external auditors and the level of assurance given by the auditors;
- monitoring regulatory compliance;
- evaluating the appropriateness of the company's administrative, operating and accounting policies; and
- risk management generally (including such issues as insurances, management of information systems and internal controls).

The removal and nomination of auditors will be determined in accordance with the Corporations Act 2001. The Charter of the Audit and Corporate Governance Committee can be viewed on the company's website.

The CEO and the CFO are required to state to the Board in writing, at the time of submitting the half-year and full year accounts for Board approval, that the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and Group and are in accordance with relevant accounting standards and that the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

## Principle 5

### Make Timely and Balanced Disclosure

The Board has adopted a Disclosure Protocol to ensure the timely and appropriate release of disclosable information to the market in accordance with ASX Listing Rules. Details of the Protocol are available on the company's website.

Mr Dion Cust, company secretary is the Continuous Disclosure Officer. The Chairman or CEO approve the final form of announcements, subject to any comments from directors, who are given the opportunity to comment on proposed material announcements prior to their release.

## Principle 6

### Respect the Rights of Shareholders

It is a fundamental tenet that the Board must act in the interests of all shareholders and, when Board decisions may affect different shareholder groups differently, the Board must treat all shareholders fairly.

The company is committed to ensuring that shareholder's are fully informed of the company's affairs. Effective communications with shareholders is, therefore, very important. The ways in which the company does this include:

- Regular reports to shareholders, including the company's Annual Report;
- The Annual General Meeting, where the external auditor is in attendance to answer any shareholder questions about the audit and the auditor's report; and
- Disclosure of all announcements made to the ASX on the company website, located at [www.mitchells.com.au](http://www.mitchells.com.au), as soon as they have been lodged.

## Principle 7

### Recognise and Manage Risk

It is a key part of the role of the Audit and Corporate Governance Committee to oversee the establishment and implementation of the risk management system. During the year ended 30 June 2008, a risk management framework and register was formally developed and adopted.

Management has reported to the Board as to the effectiveness of the company's management of material business risks during the year ended 30 June 2010. The company has, taking into account its current size and structure, a relatively strong system of risk management and internal controls in place. As such, the system is operating effectively in all material respects in relation to financial reporting risks.

## Principle 8

### Remunerate Fairly and Responsibly

The expected performance of the CEO and the senior executive staff reporting directly to him is specified each year using key performance indicators ('KPI's'). These KPI's include, where appropriate, financial targets for the company overall, as well as personal objectives and targets, appropriate for each individual's role.

The Human Resources, Remuneration and Nominations Committee assists the Board to address the various issues in this area (see Principle 2 above). The CEO reviews the performance of staff reporting directly to him and makes recommendations to the Committee for approval. The CEO's own performance is reviewed by the Board, facilitated by the Human Resources, Remuneration and Nominations Committee and the Chairman.

Enhanced performance by executives and senior staff is encouraged by structuring their remuneration with fixed and variable elements.

It is vital that directors are provided with and have access to all relevant information to enable them to properly discharge their duties. Management is responsible for ensuring that reporting to the Board is comprehensive and timely.

## Corporate governance statement (continued)

### Principle 8 (continued)

#### Remunerate Fairly and Responsibly (continued)

Directors can request from management (through the CEO, CFO or the company secretary) whatever information they require to enable the Board to make informed decisions. As mentioned previously, if necessary, directors may also access independent professional advice at the company's expense.

The company secretary is appointed, and can only be removed by the Board and is accountable to the Board on all governance matters.

The company's remuneration policy has been set to ensure that remuneration of all directors and all staff properly reflects each person's accountabilities, duties and their level of performance, and to ensure that remuneration is competitive in attracting, motivating and retaining staff of the highest quality.

All remuneration packages are reviewed at least annually, taking into account individual and company performance, market movements and expert advice.

The remuneration of non-executive directors consists of a fixed fee, with the total payable not exceeding a global limit (currently \$1,500,000) set by shareholders at a General Meeting from time to time.

Directors are not entitled to retirement benefits.

#### The remuneration of the CEO and senior executives comprises the following four elements:

- Fixed salary;
- Short term incentives;
- Long term incentives; and
- Superannuation.

Short term incentives are payable based on a formula based on achievement of budget as approved by the Board, achievement of a defined level of out-performance and the assessment of qualitative criteria.

Long term incentives consist of membership of the Mitchell Communication Group Limited Employee Option Plan (now closed) and membership of the Mitchell Communication Group Executive Performance Rights Plan.

Details of remuneration paid to directors and senior executives are set out in full in the Directors Report on pages 42 to 49.

## Financial report – 30 June 2010

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This financial report covers the consolidated entity consisting of Mitchell Communication Group Limited and its controlled entities. The financial report is presented in Australian currency.

Mitchell Communication Group Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

**Mitchell Communication Group Limited**

Level 4, 111 Cecil Street  
South Melbourne VIC 3205

A description of the nature of the Group's operations and its principal activities is included in the review of operations and activities on pages 12 to 33 and in the Directors' Report on pages 36 to 50, both of which are not part of this financial report.

The financial report was authorised for release by the directors on 30 September 2010. The company has the power to amend and reissue the financial report.

Press releases and other information are available on our website: [www.mitchells.com.au](http://www.mitchells.com.au)

For queries in relation to our reporting please call **(03) 9690 5544** or e-mail [investor@mitchells.com.au](mailto:investor@mitchells.com.au)



## Consolidated statement of comprehensive income

For the year-ended 30 June 2010

	Note	Consolidated	
		2010	2009
		\$'000	\$'000
Revenues from the rendering of services	5	261,136	225,183
Other revenues	5	895	940
<b>Total revenues</b>		<b>262,031</b>	<b>226,123</b>
<b>Cost of revenue</b>			
- Media delivery expenses		143,731	117,614
<b>Total cost of revenue</b>		<b>143,731</b>	<b>117,614</b>
<b>Gross profit before expenses</b>		<b>118,300</b>	<b>108,509</b>
<b>Expenses</b>			
- 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	6	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
<b>Total expenses</b>		<b>85,004</b>	<b>75,890</b>
<b>Profit before income tax expense, depreciation and amortisation</b>		<b>33,296</b>	<b>32,619</b>
Depreciation and amortisation expenses	6	5,377	5,385
<b>Profit before income tax expense</b>		<b>27,919</b>	<b>27,234</b>
Income tax expense	7	8,503	8,032
<b>Profit after income tax attributable to members of the company</b>		<b>19,416</b>	<b>19,202</b>
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign controlled operations		90	39
<b>Total comprehensive income for the year</b>		<b>19,506</b>	<b>19,241</b>
Basic earnings per share (cents)	30	6.5	6.6
Diluted earnings per share (cents)	30	6.5	6.6

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

## Consolidated balance sheet

As at 30 June 2010

	Note	Consolidated	
		2010	2009
		\$'000	\$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	112,518	76,112
Trade and other receivables	9	151,535	127,458
Other assets	10	7,171	9,139
Deferred tax assets	12	2,706	2,395
<b>Total current assets</b>		<b>273,930</b>	<b>215,104</b>
<b>Non-current assets</b>			
Property and equipment	11	8,703	9,999
Intangible assets	13	239,763	215,739
<b>Total non-current assets</b>		<b>248,466</b>	<b>225,738</b>
<b>Total assets</b>		<b>522,396</b>	<b>440,842</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	14	264,390	205,408
Provisions	16	5,450	3,299
Other financial liabilities	15	1,076	1,630
Current tax liabilities		1,269	2,475
<b>Total current liabilities</b>		<b>272,185</b>	<b>212,812</b>
<b>Non-current liabilities</b>			
Borrowings	17	70,000	73,000
Provisions	16	551	1,191
Other financial liabilities	15	16,604	-
Deferred tax liabilities	18	1,771	2,211
<b>Total non-current liabilities</b>		<b>88,926</b>	<b>76,402</b>
<b>Total liabilities</b>		<b>361,111</b>	<b>289,214</b>
<b>Net assets</b>		<b>161,285</b>	<b>151,628</b>
<b>EQUITY</b>			
Contributed equity	19	139,533	136,341
Reserves	20(a)	155	(71)
Retained earnings	20(b)	21,597	15,358
<b>Total equity</b>		<b>161,285</b>	<b>151,628</b>

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

## Consolidated cash flow statement

For the year-ended 30 June 2010

	Note	Consolidated	
		2010	2009
		\$'000	\$'000
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations <sup>1</sup>		1,492,114	1,315,895
Cash payments in the course of operations <sup>1</sup>		(1,423,998)	(1,273,532)
Income taxes paid		(10,761)	(11,399)
Borrowing costs paid		(2,155)	(2,508)
Interest received		857	940
<b>Net cash inflow from operating activities</b>	<b>29</b>	<b>56,057</b>	<b>29,396</b>
<b>Cash flows from investing activities</b>			
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	27	(1,129)	(24,264)
Payments for intangible software assets and licences		(667)	-
Proceeds from sale of joint venture		69	137
<b>Net cash outflow from investing activities</b>		<b>(5,531)</b>	<b>(29,691)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	21	(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	-
<b>Net cash inflow from financing activities</b>		<b>(14,120)</b>	<b>3,089</b>
<b>Net increase in cash held</b>		<b>36,406</b>	<b>2,794</b>
Cash at the beginning of the financial year		76,112	73,318
<b>Cash at the end of the financial year</b>	<b>8</b>	<b>112,518</b>	<b>76,112</b>

<sup>1</sup> Inclusive of GST

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

## Consolidated statement of changes in equity

For the year-ended 30 June 2010

	Consolidated June 2010					
	Issued capital	Retained earnings	Equity plan reserve	Foreign currency reserve	Minority interest	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance as at 1 July 2009</b>	<b>136,341</b>	<b>15,358</b>	<b>273</b>	<b>(344)</b>	<b>-</b>	<b>151,628</b>
Profit for the year	-	19,416	-	-	-	19,416
Exchange differences on translation of foreign controlled entities	-	-	-	90	-	90
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>19,416</b>	<b>-</b>	<b>90</b>	<b>-</b>	<b>19,506</b>
<b>Transactions with owners in their capacity as owners:</b>						
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 exercise of options	18	-	-	-	-	18
Transaction costs arising on share issues (net of tax)	(126)	-	-	-	-	(126)
<b>Balance as at 30 June 2010</b>	<b>139,533</b>	<b>21,597</b>	<b>409</b>	<b>(254)</b>	<b>-</b>	<b>161,285</b>

	Consolidated June 2009					
	Issued capital	Retained earnings	Equity plan reserve	Foreign currency reserve	Minority interest	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance as at 1 July 2008</b>	<b>133,071</b>	<b>7,695</b>	<b>163</b>	<b>(383)</b>	<b>6,832</b>	<b>147,378</b>
Profit for the year	-	19,202	-	-	-	19,202
Exchange differences on translation of foreign controlled entities	-	-	-	39	-	39
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>19,202</b>	<b>-</b>	<b>39</b>	<b>-</b>	<b>19,241</b>
<b>Transactions with owners in their capacity as owners:</b>						
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
<b>Balance as at 30 June 2009</b>	<b>136,341</b>	<b>15,358</b>	<b>273</b>	<b>(344)</b>	<b>-</b>	<b>151,628</b>

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes to the financial statements.

# Notes to the financial statements

30 June 2010

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## Notes to the financial statements (continued)

30 June 2010

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Mitchell Communication Group Limited and its subsidiaries.

#### (a) Basis of preparation

This general purpose financial report for the financial year ended 30 June 2010 has been prepared in accordance with Australian Accounting Standards (AASBs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group and the Corporations Act 2001.

#### Compliance with IFRSs

The consolidated financial statements and notes of Mitchell Communication Group Limited comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### Historical cost convention

These financial statements have been prepared under the historical cost convention.

#### Critical accounting estimates

The preparation of financial statements in conformity with AASBs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

#### (b) 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.

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(h)).

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 statement of comprehensive income and the consolidated balance sheet, respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of the parent entity.

##### (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 statement of comprehensive income, 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.

## Notes to the financial statements (continued)

30 June 2010

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (c) 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 statement of comprehensive income.

##### (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 entity 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.

#### (d) 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. The gross cash received from clients and paid to media suppliers is shown in the cash flow statement.

##### (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 amount 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.

#### **(e) 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(d).

#### **(f) 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.

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 standalone taxpayer in its own right.

Mitchell Communication Group Limited has finalised 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.

## Notes to the financial statements (continued)

30 June 2010

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (g) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight line basis over the period of the lease.

#### (h) 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 the 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(p)). 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.

#### 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 re-measured 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.

#### (i) 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).

#### (j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and other short term, highly liquid investments with original maturities of three months or less that are instantly convertible to known amounts of cash and which are subject to no risk of changes in value.

#### (k) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 45 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability the debtor will enter bankruptcy or financial reorganisation, and defaults on payment arrangements are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the profit or loss.

#### **(l) Investments and other financial assets**

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re evaluates this designation at each reporting date. Subsequent measurement and impairment of investments and other financial assets is considered in accordance with the accounting policy in note 1(i).

##### **Loans and receivables**

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

#### **(m) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

#### **(n) Property and equipment**

Property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Plant and equipment	3-10 years
Furniture and fittings	5-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

#### **(o) Leasehold improvements**

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvements to the Group, whichever is the shorter. Leasehold improvements held at the reporting date are being amortised over between 3 and 5 years.



## Notes to the financial statements (continued)

30 June 2010

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (p) 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 the acquisition of subsidiaries is included as part of intangible assets. Goodwill on acquisitions of associates would be included in investments in associates. Goodwill acquired in business combinations will not be amortised. Instead, goodwill will be 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 and 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 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 to 18 months. Stadia rights were fully amortised at 30 June 2010.

#### (q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition.

#### (r) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not incremental costs relating to the actual draw down of the facility, are recognised as prepayments and amortised on a straight line basis over the term of the facility.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses

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 sheet date.

## **(s) Employee benefits**

### **(i) Wages and salaries, annual leave and sick leave**

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 payables in respect of employees' services up to the reporting date and 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 measured at the rates paid or payable.

### **(ii) Long service leave**

The liability for long service leave is recognised in provisions 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. 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 currency that match, as closely as possible, the estimated future cash outflows.

### **(iii) Share-based payments**

Equity-based compensation benefits have been provided to employees via the Mitchell Communication Group Limited Employee Option Plan ('option plan') and the Mitchell Communication Group Performance Rights Plan ('performance rights plan'). The option plan has been closed and no new grants will be made in future.

#### **Performance rights plan**

The performance rights are structured as zero exercise price options. Specifically, in the event that the performance conditions associated with the performance rights are satisfied, the recipient is entitled to convert the performance rights to shares at no cost. All grants of performance rights vest to shares over a 3 year period, subject to vesting conditions and performance hurdles. The performance conditions comprise Total Shareholder Return ('TSR') and Earnings Per Share ('EPS').

The fair value of performance rights granted under the rights plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the performance rights vest.

The fair value at grant date is independently determined using the Monte Carlo approach. The Monte Carlo approach simulates many time-series paths of the underlying asset assuming that share price evolves according to the geometric Brownian motion model, a model that assumes that continuously-compounded returns are normally distributed.

#### **Option plan**

The fair value of options granted under the option plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using an enhanced Hull-White Trinomial Lattice option pricing model that takes into account the exercise price, the term of the option, the vesting, the impact of dilution, the non tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. Upon the exercise of options, the balance of the equity plan reserve relating to those options is transferred to share capital.

### **(iv) Bonus plans**

The Group recognises a liability and an expense for bonuses based on certain bonus criteria. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation and a reliable estimation of the obligation can be made.

## **(t) 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, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options are not included in the cost of the acquisition as part of the purchase consideration.

If the entity re-acquires its own equity instruments, for example as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

## Notes to the financial statements (continued)

30 June 2010

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (u) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

#### (v) 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.

#### (w) Segment reporting

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those segments operating in other economic environments.

#### (x) Goods and Services Tax (GST)

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 acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

#### (y) Parent entity financial information

The financial information for the parent entity, Mitchell Communication Group Limited, disclosed in note 33 has been prepared on the same basis as the consolidated financial statements.

#### (z) Rounding of amounts

The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

#### (aa) 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(h).

## 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.

## NOTE 2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks; market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis for interest rate and currency risk, and aging analysis for credit risk.

Risk management is carried out by the Chief Financial Officer under direction of the Board of directors.

### (a) Market risk

#### (i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the New Zealand dollar and Singapore dollar.

The international operations act as a natural hedge, with the only risk arising on translation to functional currency. No hedges are in place for this translation risk on the basis of materiality. The carrying amounts of the parent entities financial assets and liabilities are wholly denominated in Australian dollars.

#### (ii) Cash flow and fair value interest rate risk

The Group holds its funds in cash and term deposits. Term deposit maturity dates are based on future operating cash flow requirements. The value and term of the cash and deposits are such that the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. There is currently no Group policy to fix interest-rates. As at the reporting date, the Group had the following variable rate borrowings denominated wholly in Australian Dollars:

	30 June 2010		30 June 2009	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	\$'000	%	\$'000
Bank loans	5.70	70,000	3.73	73,000

#### (iii) Cash flow and fair value interest rate

The Group manages its interest rate exposure by actively managing excess cash balances to reduce the outstanding debt balances. Interest rates on cash balances and borrowings are based on short-term money markets and act as a natural hedge against interest rate movements, although the position was not fully hedged at all times throughout the year. Cash on hand at 30 June 2010 held as a natural hedge was \$112.5 million.

## Notes to the financial statements (continued)

30 June 2010

### NOTE 2. FINANCIAL RISK MANAGEMENT (continued)

#### (a) Market risk (continued)

##### Group sensitivity

At 30 June 2010, if interest rates had changed by +/- 100 basis points from the year end rates with all other variables held constant, post tax profit for the year would have been \$91,000 lower/higher (2009: change of +/- 100 bps: \$33,000 higher/lower), mainly as a result of higher interest expense on borrowing offset by higher interest revenue on bank deposits.

#### (b) Credit risk

Credit risk is managed on a segment basis. Credit risk arises from cash and cash equivalents as well as credit exposures on clients, including outstanding receivables and commitments. The Group holds a mercantile insurance policy over the trade receivable debts with the exception of related parties and government-related customers in the Media and Digital segments. The Group is responsible for a deductible amount under the policy, which ranges from nil to \$250,000 in aggregate. The insurance policy has minimum coverage levels and where the client spend is expected to fall beneath this level, the Group has policies in place to ensure that appropriate checks are made to customer's credit history, including checking trade references and obtaining a clear adverse credit report. Client insurance limits are regularly checked against outstanding commitments with adjustments made to credit limits as necessary.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. Refer to note 8 and 9 for further details. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to the level of insurance coverage held:

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>Trade receivables</b>		
- Covered by credit insurance policy	101,190	87,059
- Uninsurable trade receivables	21,617	15,563
- Not covered by credit insurance policy – Media and Digital	9,717	6,007
- Not covered by credit insurance policy – Diversified and Corporate	11,076	10,268
<b>Total</b>	<b>143,600</b>	<b>118,897</b>

The majority of the Media and Digital receivables not covered by insurance relate to clients where coverage is pending, or where increased limits are being sought. Uninsurable trade receivables relate to government clients which are not able to be covered by insurance.

#### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash balances to cover working capital needs, with excess funds used to pay down debt or invested. These invested funds have varying maturity dates set with regards to potential cash flow needs, with the ability to access the funds at any time. The Group has the availability of funding through an adequate amount of undrawn credit facilities (refer note 17). For details of the maturity profile of financial liabilities refer note 17.

#### (d) Cash flow and fair value interest rate risk

The Group holds its funds in cash, term deposits and 11am deposits. The value and term of the cash and deposits are such that the Group's income and operating cash flows are not materially exposed to changes in market interest rates. The Group's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. There is currently no Group policy to fix interest rates.



### NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

#### (a) Critical accounting estimates and assumptions

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(p). The recoverable amounts of cash generating units (CGU's) have been determined based on value in use calculations. These calculations require the use of assumptions (refer to note 13 for details of these 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.

#### (b) 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(d) for further details regarding the revenue recognition policy of the Group.

### NOTE 4. 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 the financial statements (continued)

30 June 2010

### NOTE 4. SEGMENT INFORMATION (continued)

Operating segments	Media		Digital		Diversified		Corporate Central Services		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
<b>INCOME STATEMENT</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>										
Revenue from the rendering of services	44,018	39,712	162,901	131,261	54,217	54,210	-	-	261,136	225,183
<b>Segment result</b>										
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)
<b>Profit/(loss) before interest and income tax</b>	<b>9,676</b>	<b>7,894</b>	<b>21,070</b>	<b>18,276</b>	<b>4,326</b>	<b>8,139</b>	<b>(5,678)</b>	<b>(5,488)</b>	<b>29,394</b>	<b>28,821</b>
Interest revenue									895	940
Interest expense									(2,370)	(2,527)
<b>Profit before income tax</b>									<b>27,919</b>	<b>27,234</b>
Income tax expense									(8,503)	(8,032)
<b>Net profit after tax attributable to members of the company</b>									<b>19,416</b>	<b>19,202</b>
Non-cash expenses other than depreciation and amortisation	361	588	46	(3)	175	181	138	110	720	876
<b>BALANCE SHEET</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Assets</b>										
Segment assets	241,232	249,127	42,972	38,976	128,392	104,113	109,800	48,626	522,396	440,842
<b>Liabilities</b>										
Segment liabilities	214,665	171,256	38,456	28,066	31,135	8,908	76,855	80,984	361,111	289,214
<b>Consolidated net assets</b>	<b>26,567</b>	<b>77,871</b>	<b>4,516</b>	<b>10,910</b>	<b>97,257</b>	<b>95,205</b>	<b>32,945</b>	<b>(32,358)</b>	<b>161,285</b>	<b>151,628</b>

## NOTE 5. REVENUE

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>Revenues</b>		
Revenue from the rendering of services	261,136	225,183
<b>Other revenue</b>		
Interest received	895	940
	<b>262,031</b>	<b>226,123</b>

## NOTE 6. EXPENSES

Profit before income tax expense includes the following specific expenses:

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>Expenses</b>		
<b>Depreciation</b>		
Property and equipment	2,242	1,884
Furniture and fittings	285	193
Leasehold improvements	603	517
Plant and equipment under finance leases	28	124
Motor vehicles	10	13
<b>Total depreciation expense</b>	<b>3,168</b>	<b>2,731</b>
<b>Amortisation</b>		
Customer related	1,741	1,659
Software and licence	468	837
Stadia rights	-	158
<b>Total amortisation expense</b>	<b>2,209</b>	<b>2,654</b>
<b>Total depreciation and amortisation expense</b>	<b>5,377</b>	<b>5,385</b>
<b>Finance costs</b>		
Interest and finance charges paid/payable*	2,370	2,527
<b>Finance costs expended</b>	<b>2,370</b>	<b>2,527</b>
<b>Net loss on disposal of property and equipment</b>	<b>63</b>	<b>65</b>
<b>Rental expense relating to operating leases</b>		
Minimum lease payments	4,690	4,305
<b>Defined contribution superannuation expense</b>	<b>4,374</b>	<b>3,887</b>

\* Borrowing costs capitalised during the year were \$160,000 (2009: \$3,000)

## Notes to the financial statements (continued)

30 June 2010

### NOTE 7. INCOME TAX

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>(a) Income tax expense</b>		
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 timing differences	(1,038)	(1,565)
<b>Aggregate income tax expense/(benefit)</b>	<b>8,503</b>	<b>8,032</b>
Deferred income tax expense/(benefit) included in income tax expense comprises:		
- (Increase)/decrease in deferred tax assets	(439)	(704)
- (Decrease) in deferred tax liabilities	(599)	(861)
	<b>(1,038)</b>	<b>(1,565)</b>
<b>(b) Reconciliation of prima facie income tax expense calculated at 30% (2009: 30%)</b>		
<b>Profit from continuing operations before income tax expense</b>	<b>27,919</b>	<b>27,234</b>
Income tax expense calculated at 30% (2009: 30%)	8,376	8,171
Increase in income tax expense due to:		
- Expenditure not deductible for tax purposes	389	107
- Under provision in prior year	22	42
Decrease in income tax due to:		
- Deductible acquisition costs	(298)	(286)
- Tax losses not recognised in deferred tax assets	14	(2)
<b>Income tax expense for the year</b>	<b>8,503</b>	<b>8,032</b>
<b>(c) Amounts recognised directly in equity</b>		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly credited or debited to equity:		
Net deferred tax debited directly to equity	104	104
<b>(d) Tax losses</b>		
<b>Unused tax losses for which no deferred tax asset has been recognised</b>	<b>291</b>	<b>121</b>
Potential tax benefit @ 30%	87	36
<b>Total potential tax benefit</b>	<b>87</b>	<b>36</b>

### (e) Tax consolidation legislation

Mitchell Communication Group Limited and its wholly owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2006. The wholly owned Australian controlled entities in the Mitchell & Partners acquisition joined the Group on 1 April 2007. Other acquired entities joined the Group on the date of their acquisition. The accounting policy in relation to this legislation is set out in note 1(f).

The entities in the tax consolidated group have entered into tax sharing agreements which, in the opinion of the directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity, Mitchell Communication Group Limited.

The entities have also entered into a tax funding agreement under which 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 the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of 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. The funding amounts are recognised as current intercompany receivables or payables.

## NOTE 8. CASH AND CASH EQUIVALENTS

	Consolidated	
	2010	2009
	\$'000	\$'000
Cash at bank and on hand	111,126	74,090
Deposits at call	1,392	2,022
<b>Total</b>	<b>112,518</b>	<b>76,112</b>

### (a) Cash at bank and on hand

The cash at bank and on hand is bearing a floating interest rate from 1.5% to 4.5% (2009: 2.25% to 3.0%).

### (b) Deposits at call

Deposits at call are bearing floating interest rates of between 4.0% to 5.15% (2009: 3.15% to 8.5%).

## NOTE 9. TRADE AND OTHER RECEIVABLES

	Note	Consolidated	
		2010	2009
		\$'000	\$'000
Trade receivables	(a)	152,155	128,153
Less: Provision for impaired receivables	(b)	(620)	(695)
<b>Total</b>		<b>151,535</b>	<b>127,458</b>

### (a) Trade receivables

The average credit period on sale of services is 45 days. Material credit risk on trade receivables is covered by a comprehensive mercantile insurance policy, refer note 2(b) for further detail.

Before accepting new media customers, the Group applies for mercantile insurance against the potential debt. Where the debtor falls below the insurable limit, or does not receive coverage, the Group performs a background credit check to determine the potential customers' credit quality and then defines the credit limits for that customer. Limits attributed to customers are reviewed regularly.

### (b) Impaired trade receivables

Included in the Group's trade receivable balance are debtors with a carrying amount of \$7.9m (2009: \$8.6m) which are past due at the reporting date and for which the Group has not provided for, as the amounts are considered recoverable.



## Notes to the financial statements (continued)

30 June 2010

### NOTE 9. TRADE AND OTHER RECEIVABLES (continued)

#### (b) Impaired trade receivables (continued)

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>Ageing past due but not impaired:</b>		
60 – 90 days	2,088	4,016
90 – 120 days	2,231	1,514
120+ days	3,616	3,031
<b>Total</b>	<b>7,935</b>	<b>8,561</b>
<b>Movement in the provision for impaired receivables:</b>		
<b>Opening balance</b>	695	326
Acquired balance	130	40
Impairment losses recognised on receivables	214	765
Amounts written off as not collectible	(419)	(436)
<b>Balance at the end of the year</b>	<b>620</b>	<b>695</b>
<b>Ageing of impaired trade receivables:</b>		
60 – 90 days	17	27
90 – 120 days	35	49
120+ days	568	619
<b>Total</b>	<b>620</b>	<b>695</b>

### NOTE 10. OTHER ASSETS

	Consolidated	
	2010	2009
	\$'000	\$'000
Prepayments	3,904	4,319
Accrued revenue	696	1,034
Inventory	573	571
Other assets	1,998	3,207
Loans to joint venture entities	-	8
<b>Total</b>	<b>7,171</b>	<b>9,139</b>

## NOTE 11. PROPERTY AND EQUIPMENT

	Plant & equipment	Furniture & fittings	Leasehold improvements	Leased plant & equipment	Motor vehicles	Total
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 1 July 2008</b>						
Cost	9,992	2,134	1,577	1,082	132	14,917
Less: accumulated depreciation	(6,474)	(1,140)	(476)	(754)	(80)	(8,924)
<b>Net book amount</b>	<b>3,518</b>	<b>994</b>	<b>1,101</b>	<b>328</b>	<b>52</b>	<b>5,993</b>
<b>Year ended 30 June 2009:</b>						
Additions	4,974	372	1,283	6	12	6,647
Acquisition of subsidiary	149	-	39	-	-	188
Disposals	(17)	(34)	(31)	-	(16)	(98)
Depreciation charge	(1,884)	(193)	(517)	(124)	(13)	(2,731)
<b>Closing net book amount</b>	<b>6,740</b>	<b>1,139</b>	<b>1,875</b>	<b>210</b>	<b>35</b>	<b>9,999</b>
<b>At 30 June 2009</b>						
Cost	15,111	2,472	2,868	1,088	128	21,667
Less: accumulated depreciation	(8,371)	(1,333)	(993)	(878)	(93)	(11,668)
<b>Net book amount</b>	<b>6,740</b>	<b>1,139</b>	<b>1,875</b>	<b>210</b>	<b>35</b>	<b>9,999</b>
<b>Year ended 30 June 2010:</b>						
Additions	1,946	123	130	-	-	2,199
Acquisition of subsidiary	87	90	29	-	-	206
Disposals	(27)	(41)	(441)	(24)	-	(533)
Depreciation charge	(2,242)	(285)	(603)	(28)	(10)	(3,168)
<b>Closing net book amount</b>	<b>6,504</b>	<b>1,026</b>	<b>990</b>	<b>158</b>	<b>25</b>	<b>8,703</b>
<b>At 30 June 2010</b>						
Cost	17,196	2,711	2,569	1,037	128	23,641
Less: accumulated depreciation	(10,692)	(1,685)	(1,579)	(879)	(103)	(14,938)
<b>Net book amount</b>	<b>6,504</b>	<b>1,026</b>	<b>990</b>	<b>158</b>	<b>25</b>	<b>8,703</b>

## Notes to the financial statements (continued)

30 June 2010

### NOTE 12. DEFERRED TAX ASSETS

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>The balance comprises temporary differences attributable to:</b>		
Doubtful debts	368	314
Employee benefits	1,656	1,285
Accrued expenses	502	523
Depreciation	-	(7)
Tax losses*	75	72
Share issue expenses	105	208
<b>Net deferred tax assets</b>	<b>2,706</b>	<b>2,395</b>
<b>Deferred tax assets to be recovered within 12 months</b>	<b>2,706</b>	<b>2,395</b>

\* The deferred tax asset attributable to tax losses does not exceed taxable amounts arising from the reversal of existing assessable temporary differences

	Tax losses	Employee benefits	Share issue expenses	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Movements – Consolidated</b>					
<b>At 1 July 2008</b>	7	990	311	474	1,782
Charged to the profit or loss	65	231	-	362	658
Charged directly to equity	-	-	(103)	-	(103)
Acquisition of subsidiary	-	64	-	(6)	58
<b>At 30 June 2009</b>	<b>72</b>	<b>1,285</b>	<b>208</b>	<b>830</b>	<b>2,395</b>
Charged to the profit or loss	3	353	-	40	396
Charged directly to equity	-	-	(103)	-	(103)
Acquisition of subsidiary	-	18	-	-	18
<b>At 30 June 2010</b>	<b>75</b>	<b>1,656</b>	<b>105</b>	<b>870</b>	<b>2,706</b>

## NOTE 13. INTANGIBLE ASSETS

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

### (a) Software

The software has a useful life of between 3 and 4 years (refer note 1(p))

### (b) Determination of intangibles relating to prior year acquisition

The goodwill that was provisionally assessed, relating to the acquisitions of the Picture This! Productions Pty Ltd, Agile Automated Advertising Pty Ltd and Vivid Holdings Australia Pty Ltd during the year ended 30 June 2009, has been finalised during the period. The Group has identified and independently valued intangibles of the acquired businesses, which has resulted in a reduction of the goodwill provisionally booked in 2009 of \$0.606 million and a corresponding increase in customer-related and software intangible assets. There was also a \$0.1 million increase in total intangible assets in relation to additional consideration on the Picture This! Productions Pty Ltd acquisition. The intangibles identified are specified in the note above.

### (c) Impairment tests for goodwill

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. These calculations use cash flow projections based on approved budgets for the year ending 30 June 2011. At 30 June 2010, the Group has determined that there is no impairment to intangible asset values based on the calculations performed.

## Notes to the financial statements (continued)

30 June 2010

### NOTE 13. INTANGIBLES ASSETS (continued)

#### (d) Key assumptions used for value-in-use calculations

CGU	Carrying value of goodwill		Carrying value of brand name		Gross margin *		Growth rate**		Discount rate ***	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000	%	%	%	%	%	%
Media	109,962	106,176	5,750	5,750	n/a	n/a	3.4	4.0	11.5	11.4
Digital Advertising & Technology	24,211	24,160	-	-	n/a	n/a	4.7	6.0	11.5	11.4
Diversified	93,249	71,843	-	-	51	30	4.7	5.0	11.5	11.4

\* Budgeted gross margin. Revenue from Mitchell & Partners Group is recognised on an agency principle. Refer note 1(d).

\*\* Weighted average growth rate used to extrapolate cash flows beyond the budget period

\*\*\* In performing the value in use calculations for each CGU, the company has applied post tax discount rates to discount the forecast future attributable post tax cash flows.

Management determined budgeted gross margin based on past performance, economic and industry data and its future expectations.

#### (e) Impact of possible changes in key assumptions

There are no reasonably possible changes in the key assumptions that would cause the CGU's carrying amount to exceed its recoverable amount.

### NOTE 14. TRADE AND OTHER PAYABLES

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

#### Risk exposure

Information about the Group's and parent entities exposure to foreign exchange risk is provided in note 2.

### NOTE 15 OTHER FINANCIAL LIABILITIES

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>Current</b>		
Deferred consideration – acquisitions	1,057	1,630
Finance lease liability	19	-
<b>Total</b>	<b>1,076</b>	<b>1,630</b>
<b>Non-current</b>		
Deferred consideration - acquisitions	16,604	-

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

## NOTE 16. PROVISIONS

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>Current</b>		
Employee entitlements	4,842	3,049
Other provisions	608	250
<b>Total</b>	<b>5,450</b>	<b>3,299</b>
<b>Non-current</b>		
Employee entitlements	551	1,191

## NOTE 17. BORROWINGS

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>Total secured liabilities</b>		
<b>Non-current</b>		
Bank loans	70,000	73,000

### (a) Assets pledged as security

The bank loans of Mitchell Communication Group Limited ('parent entity') are secured by registered mortgage debentures over the assets of the parent entity, Neodigital Pty Ltd, Digital Artists Pty Ltd, Digital Advertising New Zealand Limited, Mitchell & Partners Pty Ltd, Mitchell & Partners (NSW) Pty Ltd, Mitchell & Partners (Qld) Pty Ltd, Mitchell & Partners Australia Pty Ltd, Stadia Media Pty Ltd, Positive Outcomes Pty Ltd, Spark PR Pty Ltd, Drive Communications Pty Ltd, Mitchell & Partners (NZ) Limited, Haystac Public Affairs Pty Ltd, Visual Jazz Pty Ltd, emitch Pty Ltd and Mitchell Communication Group Management Services Pty Ltd (2009: the parent entity, Neodigital Pty Ltd, Digital Artists Pty Ltd, Digital Advertising New Zealand Limited, Mitchell & Partners Pty Ltd, Mitchell & Partners (NSW) Pty Ltd, Mitchell & Partners (Qld) Pty Ltd, Mitchell & Partners Australia Pty Ltd, Stadia Media Pty Ltd, Positive Outcomes Pty Ltd, Spark PR Pty Ltd, Drive Communications Pty Ltd, Mitchell & Partners (NZ) Limited, emitch Pty Ltd, Vivid Holdings Australia Pty Ltd, Vivid Group Pty Ltd and Web Data Group Pty Ltd.)

The carrying amount of assets pledged as security for the non-current borrowings are:

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>Current</b>		
<b>Floating charge</b>		
Cash and cash equivalents	110,451	76,049
Trade and other receivables	146,603	108,402
Other assets	5,856	7,481
<b>Total current assets pledged as security</b>	<b>262,910</b>	<b>191,932</b>
<b>Non-current</b>		
<b>Floating charge</b>		
Property and equipment	6,689	9,999
<b>Total non-current assets pledged as security</b>	<b>6,689</b>	<b>9,999</b>
<b>Total assets pledged as security</b>	<b>269,599</b>	<b>201,931</b>

### (b) Multi option interchangeable facility (Bank loans)

The multi option interchangeable facility ('facility') of \$90 million (between 1 November and 30 April) and \$80 million (between 1 May and 31 October) is for general corporate and working capital purposes of the Group. The facility is an ever-green facility which will be reviewed in October each year, where an additional year can be added to the repayment date, with the first repayable date being 31 October 2011. The facility is drawn down as required as a bank overdraft. The overdraft has a variable interest rate based on the 30-day bank bill swap rate.

The current interest rate on the bank overdraft is 5.70% (2009: 3.71% to 3.73%).



## Notes to the financial statements (continued)

30 June 2010

### NOTE 17. BORROWINGS (continued)

#### (c) Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>Multi option interchangeable facility</b>		
Total facilities	80,000	-
Used at balance date	70,000	-
<b>Unused at balance date</b>	<b>10,000</b>	<b>-</b>
<b>Bank loan facilities – Pool "A"</b>		
Total facilities	-	50,000
Used at balance date	-	44,300
<b>Unused at balance date</b>	<b>-</b>	<b>5,700</b>
<b>Bank loan facilities – Pool "B"</b>		
Total facilities	-	30,000
Used at balance date	-	28,700
<b>Unused at balance date</b>	<b>-</b>	<b>1,300</b>

The cash advance facility may be drawn at any time up to the facility limit.

#### (d) Interest rate risk exposures

The following table sets out the Group's exposure to interest rate risk, including the contractual re-pricing dates and weighted average interest rate by maturity periods.

Exposures arise from liabilities bearing variable interest rates.

	Floating interest rate	Fixed interest rate					Total
		1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	
2010	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Bank loans</b>	<b>70,000</b>	-	-	-	-	-	<b>70,000</b>
Weighted average interest rate	5.70%	-	-	-	-	-	5.70%

	Floating interest rate	Fixed interest rate					Total
		1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	
2009	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Bank loans</b>	<b>73,000</b>	-	-	-	-	-	<b>73,000</b>
Weighted average interest rate	3.73%	-	-	-	-	-	3.73%

### (e) Fair value

The carrying amounts and fair values of borrowings at balance date:

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$'000	\$'000	\$'000	\$'000
<b>On balance sheet</b>				
<b>Bank loans</b>	<b>70,000</b>	<b>70,000</b>	<b>73,000</b>	<b>73,000</b>

None of the classes of borrowings are readily traded on organised markets in standardised form. Fair value is inclusive of costs, which would be incurred on settlement of a liability.

### On balance sheet

The fair value of borrowings is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles.

### (f) Risk exposures

Information about the Group's and parent entities exposure to interest rate and foreign exchange changes is provided in note 2.

## NOTE 18. DEFERRED TAX LIABILITIES

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>The balance comprises temporary differences attributable to:</b>		
Amounts recognised in profit or loss		
Intangibles	1,574	1,982
Work in progress	127	128
Depreciation	70	60
Grants receivable	-	41
<b>Net deferred tax liabilities</b>	<b>1,771</b>	<b>2,211</b>
Deferred tax liabilities to be recovered after more than 12 months	1,134	1,524
Deferred tax liabilities to be recovered within 12 months	637	687
<b>Total</b>	<b>1,771</b>	<b>2,211</b>

	Intangibles	Other	Total
	\$'000	\$'000	\$'000
<b>Movements – Consolidated</b>			
<b>At 1 July 2008</b>	2,501	-	2,501
[Credited]/charged to the profit or loss	(519)	229	(290)
<b>At 30 June 2009</b>	<b>1,982</b>	<b>229</b>	<b>2,211</b>
[Credited] to the profit or loss	(408)	(32)	(440)
<b>At 30 June 2010</b>	<b>1,574</b>	<b>197</b>	<b>1,771</b>

## Notes to the financial statements (continued)

30 June 2010

### NOTE 19. CONTRIBUTED EQUITY

	Note	Consolidated		Consolidated	
		2010	2009	2010	2009
		Shares '000	Shares '000	\$'000	\$'000
<b>(a) Share capital</b>					
<b>Ordinary shares, fully paid</b>	<b>(b)(c)</b>	<b>301,655</b>	<b>297,447</b>	<b>139,533</b>	<b>136,341</b>

#### (b) Movements in ordinary share capital:

Date	Details		Number of shares	Average issue price	\$'000
<b>2009</b>					
<b>1 Jul 2008</b>	<b>Opening balance</b>		<b>288,018,581</b>		<b>133,071</b>
3 Oct 2008	Issued as part consideration on the purchase of Visual Jazz Pty Ltd	(d)	1,012,590	\$0.62	(68)
24 Oct 2008	Issued as part consideration of earn-out payments on the purchase of Coleman Group Pty Ltd	(d)	781,281	\$0.67	112
13 Mar 2009	Shares issued under employment contract		500,000	\$0.43	213
17 Apr 2009	Shares issued under the Dividend Reinvestment Plan	(e)	7,134,839	\$0.44	3,139
	Less: Transaction costs arising on share issue, including the tax benefit from previous share issues				(126)
<b>30 Jun 2009</b>	<b>Closing balance</b>		<b>297,447,291</b>		<b>136,341</b>
<b>2010</b>					
4 Sep 2009	Shares issued as part consideration on the purchase of Starcom Worldwide (WA)	(f)	1,185,245	\$0.86	1,025
2 Oct 2009	Shares issued under the Dividend Reinvestment Plan	(e)	1,440,652	\$0.76	1,096
17 Mar 2010	Shares issued on exercise of performance rights		167,731		-
16 Apr 2010	Shares issued under the Dividend Reinvestment Plan	(e)	1,386,938	\$0.85	1,179
20 Apr 2010	Shares issued on exercise of options		26,796	\$0.65	18
	Less: Transaction costs arising on share issue, including the tax benefit from previous share issues				(126)
<b>30 Jun 2010</b>	<b>Closing balance</b>		<b>301,654,653</b>		<b>139,533</b>

#### (c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

#### (d) Shares issued as deferred consideration

The company issued shares to the vendors of Visual Jazz Pty Ltd and Coleman Group Pty Ltd as part payment of deferred consideration under the Sale and Purchase agreements. An estimate value was taken up in contributed equity at 30 June 2008. The 2009 year figure represents the variance between the estimated and actual value issued.

### (e) Shares issued under the Dividend Reinvestment Plan

On 19 February 2009, the company announced a Dividend Reinvestment Plan ('DRP'), whereby shares would be issued based upon the daily volume weighted average market price of MCU shares during the five trading days ended:

- 30 March 2009, less a 5% discount which equated to a value of \$0.44 per share. A total of 7,134,839 were issued under the DRP on 17 April 2009 to those shareholders who elected to take part in the Plan;
- 21 September 2009, less a 5% discount which equated to a value of \$0.76 per share. A total of 1,440,652 were issued under the DRP on 2 October 2010 to those shareholders who elected to take part in the Plan; and
- 29 March 2010, less a 5% discount which equated to a value of \$0.85 per share. A total of 1,386,938 were issued under the DRP on 16 April 2010 to those shareholders who elected to take part in the Plan.

### (f) Purchase of Starcom Worldwide (WA)

Effective 1 July 2009, the company acquired the business and assets of Starcom Worldwide (WA) (details of which can be found in note 27), for consideration including 1,185,245 fully paid ordinary shares in the capital of Mitchell Communication Group Limited. The fair value of ordinary shares issued was calculated by taking the average price of the five trading days prior to the date of exchange.

### (g) Capital risk management

The Group's objectives when managing capital is to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital by analysing the net cash/debt position and gearing ratio. The gearing ratio is calculated as net debt divided by total capital. The business is currently in a net cash position.

## NOTE 20. RESERVES AND RETAINED EARNINGS

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>(a) Reserves</b>		
Equity plan reserve	409	273
Foreign currency reserve	(254)	(344)
	<b>155</b>	<b>(71)</b>
<b>Movements:</b>		
Equity plan reserve		
Balance 1 July	273	163
Option and performance rights expense	136	110
<b>Balance 30 June</b>	<b>409</b>	<b>273</b>
Foreign currency reserve		
Balance 1 July	(344)	(383)
Currency translation differences arising during the year	90	39
<b>Balance 30 June</b>	<b>(254)</b>	<b>(344)</b>
<b>(b) Retained earnings</b>		
Retained earnings at the beginning of the 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 year	(13,177)	(11,564)
Changes in minority interest	-	25
<b>Retained earnings at the end of the financial year</b>	<b>21,597</b>	<b>15,358</b>

## Notes to the financial statements (continued)

30 June 2010

### NOTE 20. RESERVES AND RETAINED EARNINGS (continued)

#### (c) Nature and purpose of reserves

##### (i) Equity plan reserve

The equity plan reserve is used to recognise the fair value of options and performance rights issued but not exercised.

##### (ii) Foreign currency reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(c). The reserve is recognised in the statement of comprehensive income when the net investment is disposed of.

### NOTE 21. DIVIDENDS

Consolidated	
2010	2009
\$'000	\$'000

#### (a) Ordinary shares

Final dividend for the year ended 30 June 2009 of 2.1 cents (2008: 2.1 cents) per fully paid share paid on 2 October 2009 (2008: 26 September 2008). 100% franked (2008: 100% franked) based on tax paid at 30%.	6,271	6,048
Interim dividend for the year ended 30 June 2010 of 2.3 cents (2009: 1.9 cents) per fully paid share paid on 16 April 2010 (2009: 17 April 2009). 100% franked (2009: 100% franked) based on tax paid at 30%	6,906	5,516
<b>Total dividends provided for or paid</b>	<b>13,177</b>	<b>11,564</b>

#### (b) Dividends not recognised at year end

Details of dividends declared subsequent to the year ended 30 June 2010 are as follows:

Record date	Payment date	Type	Amount per security	Total dividend	Franked amount per security	Foreign sourced dividend amount per security
1 November 2010	8 November 2010	Final	5.0 cents	15,088,060	5.0 cents	Nil

Consolidated	
2010	2009
\$'000	\$'000

#### (c) Franked dividends

Franking credits available for subsequent financial years based on a tax rate of 30% (2009: 30%)	24,949	19,811
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The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- (i) franking credits that will arise from the payment of the current tax liability;
- (ii) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- (iii) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of controlled entities were paid as dividends.

The impact on the franking account of the dividend recommended by the directors since year-end, but not recognised as a liability at year-end, will be a reduction in the franking account of \$6,466,000 (2009: \$2,677,000).

## NOTE 22. KEY MANAGEMENT PERSONNEL DISCLOSURES

### (a) Directors

The following persons were directors of Mitchell Communication Group Limited during the financial year:

<b>Chairman</b>	H C Mitchell AC (Executive Chairman)
<b>Executive directors</b>	S J Mitchell (Chief Executive Officer)
<b>Non-executive directors</b>	G A Hounsell (Deputy Chairman) R J Stewart R J Lamplugh S A Cameron N Sparks P G Nankervis (resigned 15 January 2010)

### (b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position	Employer
L Littlefield	Chief Operating Officer	Mitchell Communication Group Management Services Pty Ltd
J Murray	Managing Director – Digital	Mitchell Communication Group Management Services Pty Ltd
A Charles	Managing Director – Diversified	Mitchell Communication Group Management Services Pty Ltd
P Davey	Managing Director – Media	Mitchell Communication Group Management Services Pty Ltd
D G Cust	Chief Financial Officer	Mitchell Communication Group Management Services Pty Ltd

### (c) Key management personnel compensation

	Consolidated	
	2010	2009
	\$	\$
Short-term employee benefits	2,308,784	2,201,135
Post-employment benefits	223,720	318,052
Long-term benefits	12,184	17,990
Share-based payments	-	228,898
<b>Total</b>	<b>2,544,688</b>	<b>2,766,075</b>

The company has taken advantage of the relief provided by Corporations Regulation 2M.3.03 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in sections A-C of the remuneration report on pages 42 to 47.



## Notes to the financial statements (continued)

30 June 2010

### NOTE 22. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

#### (d) Equity instrument disclosures relating to key management personnel

##### (i) Options and performance rights provided as remuneration and shares issued on exercise of such options and performance rights

Details of options and performance rights over ordinary shares in the company provided as remuneration and shares issued on the exercise of such options and performance rights, together with terms and conditions of the options can be found in Section D of the remuneration report on pages 47 to 48.

##### (ii) Option and performance rights holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of Mitchell Communication Group Limited and other key management personnel of the Group, including their personally-related entities, are set out below. There are no performance rights held by any director or key management personnel.

#### Options

2010 Name	Balance at the start of the year	Granted during the year as remuneration	Forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
<b>Specified executives of the Group</b>					
D G Cust	81,204	-	-	81,204	81,204
J Murray	300,000	-	-	300,000	300,000

#### Options

2009 Name	Balance at the start of the year	Granted during the year as remuneration	Forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
<b>Specified executives of the Group</b>					
D G Cust	81,204	-	-	81,204	81,204
J Murray	300,000	-	-	300,000	300,000

##### (iii) Share holdings

The numbers of shares in the company held during the financial year by each director of Mitchell Communication Group Limited and other key management personnel of the Group, including their personally-related entities, are set out below.

2010 Name	Balance at the start of the year	Shares issued under employment contract	Other changes during the year	Balance at the end of the year
<b>Directors of Mitchell Communication Group Limited - Ordinary shares</b>				
H C Mitchell	108,008,504	-	4,113,186	112,121,690
S J Mitchell	13,414,063	-	(4,000,000)	9,414,063
G A Hounsell	1,758,282	-	(54,046)	1,704,236
R J Stewart	347,222	-	19,249	366,471
R J Lamplugh	1,084,908	-	-	1,084,908
S A Cameron	74,376	-	4,123	78,499
P G Nankervis (resigned 15 January 2010)	67,806	-	(67,806)	-
<b>Other key management personnel of the Group - Ordinary shares</b>				
L Littlefield	521,590	-	14,412	536,002
D G Cust	371,254	-	-	371,254

2009 Name	Balance at the start of the year	Shares issued under employment contract	Other changes during the year	Balance at the end of the year
<b>Directors of Mitchell Communication Group Limited - Ordinary shares</b>				
H C Mitchell	102,408,827	-	5,599,677	108,008,504
S J Mitchell	12,858,797	-	555,266	13,414,063
G A Hounsell	1,660,500	-	97,782	1,758,282
R J Stewart	307,849	-	39,373	347,222
R J Lamplugh	1,040,000	-	44,908	1,084,908
S A Cameron	71,298	-	3,078	74,376
P G Nankervis	-	-	67,806	67,806
<b>Other key management personnel of the Group - Ordinary shares</b>				
L Littlefield	-	500,000	21,590	521,590
D G Cust	371,254	-	-	371,254
J White	20,510	-	-	20,510

**(e) Loans to key management personnel**

There were no loans made to directors of Mitchell Communication Group Limited and other key management personnel of the Group, including their personally related parties during the years ended 30 June 2009 and 30 June 2010.

**(f) Other transactions with directors and specified executives**

**Directors of Mitchell Communication Group Limited**

From 21 May 2007 until 8 September 2008, a private entity related to Mr H C Mitchell leased office space to an entity in the Group. The rental was based on arms length terms.

A director, H C Mitchell is a director and shareholder of the Mitchell Family Office. The Mitchell Family Office sub-leased space from an entity within the Group from 21 May 2007 until 8 September 2008. The rental was based on arms length terms.

A director, H C Mitchell is founder of the Harold Mitchell Foundation. The Harold Mitchell Foundation sub-let space from an entity within the Group from 21 May 2007 until 8 September 2008. The rental was based on arms length terms.

A director, R J Lamplugh is a partner in the law firm Lamplugh McIntosh. This firm provided legal services to the company on normal terms and conditions. Lamplugh McIntosh sub-leased office space from an entity within the Group from 21 May 2007. The rental was based on arms length terms.

Aggregate amounts of each of the above types of other transactions with key management personnel of Mitchell Communication Group Limited:

	2010	2009
	\$	\$
<b>Amounts recognised as revenue</b>		
Rent	25,000	256,133
<b>Amounts recognised as expense</b>		
Legal fees	156,272	156,056
<b>Aggregate amounts of assets at balance date relating to the above types of other transactions with key management personnel of the Group:</b>		
<b>Current assets</b>	<b>2,292</b>	<b>2,892</b>
<b>Aggregate amounts payable to key management personnel of the Group at balance date relating to the above types of other transactions:</b>		
<b>Current liabilities</b>	<b>28,567</b>	<b>28,508</b>

## Notes to the financial statements (continued)

30 June 2010

### NOTE 23. REMUNERATION OF AUDITORS

#### Audit services

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, and non-related audit firms:

	Consolidated	
	2010	2009
	\$	\$
<b>PricewaterhouseCoopers – Australian firm</b>		
Audit and review of financial reports and other audit work under the Corporations Act 2001	251,456	317,212
Agreed upon procedures	5,000	10,000
Related practices of PricewaterhouseCoopers Australian firm	20,000	31,288
<b>Total audit and other assurance services</b>	<b>276,456</b>	<b>358,500</b>

### NOTE 24. CONTINGENCIES

The Group had no contingent liabilities at balance date.

### NOTE 25. COMMITMENTS

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>Operating leases</b>		
The Group leases various offices under non cancellable operating leases expiring within two to ten years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.		
Commitments for minimum lease payments in relation to non cancellable operating leases are payable as follows:		
Within one year	4,159	2,751
Later than one year but not later than five years	12,178	3,363
Later than five years	14,152	-
<b>Total</b>	<b>30,489</b>	<b>6,114</b>

On 29 July 2010, the Group signed an operating lease for 101-107 York Street, South Melbourne which will be the new Melbourne premises. The lease will commence on 1 November 2010 and will run for a period of ten years, with an option to renew the lease for five years after that date. Lease payments are increased by 4% on each anniversary of the commencement date, with the exception of the fifth anniversary of the commencement date when the lease payments will be subject to a market review.

## NOTE 26. RELATED PARTIES

### (a) Key management personnel

Disclosures relating to key management personnel are set out in note 22.

### (b) Subsidiaries

Interests in subsidiaries are set out in note 28.

### (c) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2010	2009
	\$	\$
<b>Purchases of goods and services</b>		
Purchase of mobile marketing services from joint venture entity	43,130	56,554

### (d) Outstanding balances arising from sales/purchases of good and services

The following balances are outstanding at the reporting date in relation to transactions with related parties:

#### Current receivables

Joint venture entity	130,834	14,689
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#### Current payables

Joint venture entity	3,629	157,635
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No provision for impaired receivables has been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

### (e) Loans to / (from) related parties

	Consolidated	
	2010	2009
	\$	\$
<b>Loans to/(from) joint venture entities</b>		
Beginning of the year	8,429	559
Loans advanced by parent	268,876	38,695
Loan payments received/(advanced) by joint venture entity	(300,674)	(30,825)
<b>End of the year</b>	<b>[23,369]</b>	<b>8,429</b>

No provision for impaired receivables has been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

## Notes to the financial statements (continued)

30 June 2010

### NOTE 27. BUSINESS COMBINATIONS

	Note	Principal activity	Effective date of acquisition	Proportion of shares / business acquired %	Cost of acquisition \$'000
<b>2010</b>					
Insite Organisation	(a)	Marketing & communications	1/11/2009	100	21,614
Starcom Worldwide (WA)	(b)	Media buying	1/7/2009	100	2,173
<b>2009</b>					
Picture This! Productions	(c)	Video & event production	1/11/08	100	170
Agile Automated Advertising	(d)	Automated ad agency templating	1/7/08	100	1,200
Vivid Holdings Australia Pty Ltd	(e)	Branding, digital media & application development	1/7/08	100	11,745

#### (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

	\$'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
<b>Total purchase consideration</b>	<b>21,614</b>
Intangible assets	234
Deferred tax liabilities on intangible assets recognised	(70)
Fair value of net identifiable liabilities acquired	206
<b>Goodwill</b>	<b>21,244</b>

## Assets and liabilities acquired

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

	Acquiree's carrying amount	Fair value
	\$'000	\$'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)
<b>Net identifiable assets acquired</b>	<b>-</b>	<b>206</b>

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.

## (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

	\$'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
<b>Total purchase consideration</b>	<b>2,173</b>
Intangible assets	90
Deferred tax liabilities on intangible assets recognised	(27)
Fair value of net identifiable liabilities acquired	(1,704)
<b>Goodwill</b>	<b>3,814</b>



## Notes to the financial statements (continued)

30 June 2010

### NOTE 27. BUSINESS COMBINATIONS (continued)

#### (b) Acquisition of Starcom Worldwide (WA) (continued)

##### Assets and liabilities acquired

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

	Acquiree's carrying amount	Fair value
	\$'000	\$'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)
<b>Net identifiable assets/(liabilities) acquired</b>	<b>(1,630)</b>	<b>(1,704)</b>

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.

#### (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	\$'000
Cash paid	70
Additional consideration – 7 December 2009	100
<b>Total purchase consideration</b>	<b>170</b>
<b>Goodwill</b>	<b>170</b>

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 of the assets and liabilities acquired, intangible assets and goodwill are as follows:

### (ii) Purchase consideration

\$'000

Cash paid	1,200
<b>Total purchase consideration</b>	<b>1,200</b>
Fair value of net identifiable assets acquired	486
<b>Goodwill</b>	<b>714</b>

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.

## (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

\$'000

Cash paid	11,700
Direct costs relating to the acquisition	45
<b>Total purchase consideration</b>	<b>11,745</b>
Intangible assets	172
Fair value of net identifiable assets acquired	652
Deferred tax liabilities on intangible assets recognised	(52)
<b>Goodwill</b>	<b>10,973</b>

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.

### (f) Impact on profit or loss

The contribution to net profit after tax of the consolidated entity by the acquired entities listed above from the date of their acquisition or 1 July 2009, whichever is the latter to 30 June 2010 was \$1,523,210. It is not practical to disclose the full year impact of the acquisitions due to the owner-related transactions that occurred in the period up until their purchase.

## Notes to the financial statements (continued)

30 June 2010

### NOTE 28. INVESTMENTS IN CONTROLLED ENTITIES

Name of entity	Note	Country of incorporation	Class of shares	Equity Holding	
				2010 %	2009 %
Agile Automated Advertising Pty Ltd		Australia	Ordinary	100	100
Coleman Group Pty Ltd		Australia	Ordinary	100	100
Digital Advertising New Zealand Limited		New Zealand	Ordinary	100	100
Digital Artists Pty Ltd		Australia	Ordinary	100	100
dmitch Pty Ltd		Australia	Ordinary	100	100
Drive Communications Pty Ltd		Australia	Ordinary	100	100
emitch New Zealand Limited		New Zealand	Ordinary	100	100
emitch Pty Ltd		Australia	Ordinary	100	100
Haystac Public Affairs Pty Ltd		Australia	Ordinary	100	100
Insite Organisation Pty Ltd	(i)	Australia	Ordinary	100	-
Mitchell & Partners Pty Ltd		Australia	Ordinary	100	100
Mitchell & Partners (NSW) Pty Ltd		Australia	Ordinary	100	100
Mitchell & Partners (NZ) Limited		New Zealand	Ordinary	100	100
Mitchell & Partners (Qld) Pty Ltd		Australia	Ordinary	100	100
Mitchell & Partners (WA) Pty Ltd		Australia	Ordinary	100	100
Mitchell & Partners Australia Pty Ltd		Australia	Ordinary	100	100
Mitchell Communication Group Holdings (Singapore) Pte Ltd	(ii)	Singapore	Ordinary	100	-
Mitchell Communication Group Management Services Pty Ltd		Australia	Ordinary	100	100
MPG Australia Pty Ltd	(iii)	Australia	Ordinary	100	-
MPG New Zealand Limited		New Zealand	Ordinary	100	100
Neo digital Pty Ltd		Australia	Ordinary	100	100
Picture This! Productions Pty Ltd		Australia	Ordinary	100	100
Positive Outcomes Pty Ltd		Australia	Ordinary	100	100
Rodeo Agency Pty Ltd	(iv)	Australia	Ordinary	100	-
Spark PR Pty Ltd		Australia	Ordinary	100	100
Stadia Media Pty Ltd		Australia	Ordinary	100	100
Symphony Analytics & Research Pty Ltd		Australia	Ordinary	100	100
Visual Jazz Pty Ltd		Australia	Ordinary	100	100
Vivid Group Pty Ltd		Australia	Ordinary	100	100
Vivid Holdings Australia Pty Ltd		Australia	Ordinary	100	100
Web Data Group Pty Ltd		Australia	Ordinary	100	100
WSA Media Buying Pty Ltd		Australia	Ordinary	100	100

**Note:**

- (i) Insite Organisation Pty Ltd was incorporated on 23 November 2009 to facilitate acquisitions, as detailed in note 27.
- (ii) Mitchell Communication Group Holdings (Singapore) Pte Ltd was incorporated on 6 July 2009.
- (iii) MPG Australia Pty Ltd was incorporated on 21 August 2009.
- (iv) Rodeo Agency Pty Ltd was incorporated on 2 February 2010.

The proportion of ownership interest is equal to the proportion of voting power held.

**NOTE 29. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>Profit from ordinary activities after income tax</b>	<b>19,416</b>	<b>19,202</b>
Depreciation and amortisation	5,377	5,385
Share based payments	136	323
Net loss on sale of non-current assets	63	98
Net exchange differences	90	39
Change in operating assets and liabilities		
(Increase)/decrease in receivables	(13,684)	20,942
Decrease/(increase) in other assets	1,988	(1,122)
(Increase) in deferred tax assets	(414)	(1,198)
Increase/(decrease) in payables	43,697	(12,893)
(Decrease) in provision for tax payable	(1,206)	(1,848)
(Decrease) in deferred tax liability	(638)	(321)
Increase in provisions	1,232	789
<b>Net cash inflow from operating activities</b>	<b>56,057</b>	<b>29,396</b>

**NOTE 30. EARNINGS PER SHARE**

	Consolidated	
	2010	2009
	Cents	Cents
Basic earnings per share	6.5	6.6
Diluted earnings per share	6.5	6.6

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

	\$'000	\$'000
Earnings used in calculating basic and diluted earnings per share	19,416	19,202

	2010	2009
	Number of shares	Number of shares
<b>Weighted average number of ordinary shares and options used in calculating basic and diluted earnings per share</b>	<b>299,564,243</b>	<b>291,553,335</b>

The earnings as stated in the statement of comprehensive income have been used to calculate basic and diluted earnings per share.

**Information concerning the classification of securities**

Equity securities granted to non-executive directors and to executive directors and employees under the Mitchell Communication Group Limited Performance Rights Plan and Employee Option Plan are considered potential ordinary shares to the extent the exercise price is lower than the average market price for the year ended 30 June 2010. The equity instruments have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 31.

## Notes to the financial statements (continued)

30 June 2010

### NOTE 31. SHARE-BASED PAYMENTS

#### (a) Mitchell Communication Group Limited Employee Options Plan

All full time employees of Mitchell Communication Group Limited and its controlled entities were eligible to participate in the plan. Options were granted under the plan for no consideration. The options vest as soon as they become exercisable. Employee's entitlements to the options cease upon the termination of their employment. The options granted carry no dividend or voting rights. Each option is convertible into one ordinary share. The option plan is now closed.

Set out below are summaries of options granted under the plan:

Exercise price	Grant date	First exercise date	Expiry date	On issue at start of the year	Granted during the year	Exercised during the year	Lapsed during the year	Forfeited during the year	On issue at end of the year	Vested and exercisable at end of the year
\$	Date	Date	Date	Number	Number	Number	Number	Number	Number	Number
<b>Consolidated 2010</b>										
\$0.55	2-Oct-06	2-Oct-08	2-Oct-11	137,233	-	(8,932)	-	(6,767)	121,534	121,534
\$0.65	2-Oct-06	2-Oct-08	2-Oct-11	137,233	-	(8,932)	-	(6,767)	121,534	121,534
\$0.75	2-Oct-06	2-Oct-08	2-Oct-11	137,233	-	(8,932)	-	(6,767)	121,534	121,534
\$1.55	2-Apr-07	1-Oct-08	30-Sep-11	300,000	-	-	-	-	300,000	300,000
				<b>711,699</b>	<b>-</b>	<b>(26,796)</b>	<b>-</b>	<b>(20,301)</b>	<b>664,602</b>	<b>664,602</b>
<b>Weighted average exercise price</b>				<b>\$1.03</b>	<b>-</b>	<b>\$0.65</b>	<b>-</b>	<b>\$0.65</b>	<b>\$1.06</b>	
<b>Consolidated 2009</b>										
\$0.55	2-Oct-06	2-Oct-08	2-Oct-11	150,767	-	-	-	(13,534)	137,233	137,233
\$0.65	2-Oct-06	2-Oct-08	2-Oct-11	150,767	-	-	-	(13,534)	137,233	137,233
\$0.75	2-Oct-06	2-Oct-08	2-Oct-11	150,767	-	-	-	(13,534)	137,233	137,233
\$1.55	2-Apr-07	1-Oct-08	30-Sep-11	300,000	-	-	-	-	300,000	300,000
				<b>752,301</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(40,602)</b>	<b>711,699</b>	<b>711,699</b>
<b>Weighted average exercise price</b>				<b>\$1.01</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$0.65</b>	<b>\$1.03</b>	

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.26 years (2009: 2.26 years).

#### Fair value of options granted

No options were granted during the year ended 30 June 2010 and 2009 however, the assessed fair value at grant date of options granted in the year ended 30 June 2008 was 17 cents. Fair value at grant date was determined using an enhanced Hull-White Trinomial Lattice option pricing model that takes into account the exercise price, the term of the option, the vesting criteria, the impact of dilution, the non-tradable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2008 included:

- (a) Options are granted for no consideration, and vest two years after grant date
- (b) Exercise price of \$1.50
- (c) Grant date of 29 November 2007
- (d) Vesting date of 29 November 2009
- (e) Expiry date of 29 November 2012
- (f) Share price at grant date of \$1.17
- (g) Expected price volatility\* of the company's shares between 21% and 42%
- (h) Expected dividend yield between 3.9% and 5.5%
- (i) Risk-free interest rate of 6.25%

\* The expected price volatility is based on historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

### (b) Mitchell Communication Group Limited Performance Rights Plan

The Mitchell Communication Group Limited Performance Rights Plan ('performance rights plan') has been established to reward certain employees on the basis of the level of long-term performance achieved by the Mitchell Communication Group Limited.

Performance rights are granted to certain individuals as part of their total remuneration package. The value of a performance right attributed to the total remuneration package is independently valued using the Monte Carlo approach. All grants of performance rights vest to shares over a 3 year period, subject to vesting conditions and performance conditions. The performance conditions comprise Total Shareholder Return ('TSR') and Earnings Per Share ('EPS').

Performance rights can be exercised if and when the performance rights vest. Employee's entitlements to the performance rights cease upon their termination of their employment. A performance right expires five years after the grant date should it not vest or be exercised. Performance Rights granted carry no dividend or voting rights.

Each performance right is convertible into one ordinary share. The performance rights are structured as zero exercise price options. Specifically, in the event that the performance conditions associated with the performance rights are satisfied, the recipient is entitled to convert the performance rights to shares at no cost.

Set out below is a summary of performance rights granted under the performance rights plan.

Grant date	First exercise date	Expiry date	On issue at start of the year	Granted during the year	Exercised during the year	On issue at end of the year	Vested and exercisable at end of the year
Date	Date	Date	Number	Number	Number	Number	Number
<b>Consolidated 2010</b>							
1-Jan-09	1-Jan-10	1-Jan-14	1,770,172	-	(167,731)	1,602,441	-
Grant date	First exercise date	Expiry date	On issue at start of the year	Granted during the year	Exercised during the year	On issue at end of the year	Vested and exercisable at end of the year
Date	Date	Date	Number	Number	Number	Number	Number
<b>Consolidated 2009</b>							
1-Jan-09	1-Jan-10	1-Jan-14	-	1,770,172	-	1,770,172	-



## Notes to the financial statements (continued)

30 June 2010

### NOTE 31. SHARE-BASED PAYMENTS (continued)

#### (b) Mitchell Communication Group Limited Performance Rights Plan (continued)

##### Fair value of performance rights granted

The independently assessed fair value at grant date of performance rights granted in the year ended 30 June 2009 was 18.84 cents. Fair value at grant date was determined using the Monte Carlo approach. The Monte Carlo approach simulates many time-series paths of the underlying asset assuming that share price evolves according to the geometric Brownian motion model, a model that assumes that continuously-compounded returns are normally distributed.

The model inputs for performance rights granted during the year ended 30 June 2009 included:

- (a) Zero exercise price options
- (b) Grant date of 1 January 2009
- (c) Vesting dates of: 1 January 2010 (20%); 1 January 2011 (30%); and 1 January 2012 (50%)
- (d) Expiry date of 1 January 2014
- (e) Vesting is subject to testing (on an annual basis) of Total Shareholder Return ('TSR') and Earnings Per Share ('EPS') performance conditions. These tests occur on the first, second and third anniversary of the grant date. In the event that less than the maximum performance rights vest at these dates, re-testing can occur on the fourth anniversary of the grant date
- (f) Share price at grant date of \$0.45
- (g) Expected price volatility of company's shares of 34%
- (h) Expected dividend yield of 8.31%
- (i) Risk-free interest rate of 3.51%
- (j) Comparator group of 20 stocks for the purpose of testing TSR

#### (c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated	
	2010	2009
	\$'000	\$'000
Share-based payment expense	136	323

### NOTE 32. EVENTS OCCURRING AFTER REPORTING DATE

#### (a) Scheme of arrangement with Aegis plc

On 29 July 2010, Mitchells 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 Mitchells for approximately \$363 million. Should the transaction proceed, shareholders can elect to receive either \$1.20 in cash per Mitchells 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 Mitchells shares held. In addition, in the event the transaction is approved, Mitchells shareholders will receive the benefit of a fully-franked Mitchells 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.

## (b) Dividend

Since the end of the financial year, and subject to the approval of the proposed scheme of arrangement with Aegis Group plc (for details refer to 'Subsequent Events' on page 37), the directors have approved the payment of a fully franked final dividend of 5 cents per share, \$15,088,060 (2009: \$6,271,285) to be paid on 8 November 2010. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2010 and will be recognised in subsequent financial reports.

## (c) New premises

On 29 July 2010, the Group signed a ten year operating lease commencing on 1 November 2010 for 101-107 York Street, South Melbourne which will be the new Melbourne premises. Refer to Note 25 for details.

## NOTE 33. PARENT ENTITY FINANCIAL INFORMATION

### (a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	Parent Entity	
	2010	2009
	\$'000	\$'000
<b>Balance sheet</b>		
Current assets	105,696	90,004
<b>Total assets</b>	<b>318,504</b>	<b>298,896</b>
Current liabilities	107,826	93,733
<b>Total liabilities</b>	<b>178,044</b>	<b>166,928</b>
<b>Net assets</b>	<b>140,460</b>	<b>131,968</b>
<b>Equity</b>		
Contributed equity	139,533	136,341
Equity plan reserve	409	273
Retained earnings/(accumulated losses)	518	(4,646)
<b>Total equity</b>	<b>140,460</b>	<b>131,968</b>
<b>Profit for the year</b>	<b>18,340</b>	<b>18,225</b>
<b>Total comprehensive income</b>	<b>18,340</b>	<b>18,225</b>

### (b) Guarantees entered into by the parent entity

There are cross guarantees given by Mitchell Communication Group Limited, Mitchell & Partners Pty Ltd and emitch Pty Ltd as described in note 34. No deficiencies of assets exist in any of these entities.

### (c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2010 or 30 June 2009.

## Notes to the financial statements (continued)

30 June 2010

### NOTE 34. DEED OF CROSS GUARANTEE

Mitchell Communication Group Limited, Mitchell & Partners Pty Ltd and emitch Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved of the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

#### Financial statements

The above companies represent a 'Closed Group' for the purpose of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Mitchell Communication Group Limited, they also represent the 'Extended Closed Group'. Set out below is a consolidated statement of comprehensive income, a summary of movements in the consolidated retained profits for the year ended 30 June 2010 and a consolidated balance sheet as at 30 June 2010 of the Closed Group consisting of Mitchell Communication Group Limited, Mitchell & Partners Pty Ltd and emitch Pty Ltd.

	Consolidated	
	2010	2009
	\$'000	\$'000
<b>Consolidated statement of comprehensive income</b>		
Profit before income tax expense	19,332	21,077
Income tax expense	(3,549)	(2,852)
<b>Profit after income tax expense</b>	<b>15,783</b>	<b>18,225</b>
<b>Total comprehensive income</b>	<b>15,783</b>	<b>18,225</b>
Accumulated profits/(losses) at beginning of year	5,007	(1,654)
Dividends declared and paid during the year	(13,177)	(11,564)
<b>Retained earnings at end of year</b>	<b>7,613</b>	<b>5,007</b>
<b>Consolidated balance sheet</b>		
<b>Current assets</b>		
Cash and cash equivalents	106,865	47,733
Trade and other receivables	103,902	40,768
Other assets	32,753	21,551
Deferred tax assets	1,200	449
<b>Total current assets</b>	<b>244,720</b>	<b>110,501</b>
<b>Non-current assets</b>		
Property and equipment	2,240	2,565
Intangible assets	10,559	10,514
Investments in subsidiaries not subject to the Deed of Cross Guarantee	192,794	189,081
<b>Total non-current assets</b>	<b>205,593</b>	<b>202,160</b>
<b>Total assets</b>	<b>450,313</b>	<b>312,661</b>
<b>Current liabilities</b>		
Trade and other payables	35,763	27,423
Provisions	1,738	1,205
Other financial liabilities	191,946	65,433
Current tax liabilities	1,811	3,120
<b>Total current liabilities</b>	<b>231,258</b>	<b>97,181</b>
<b>Non-current liabilities</b>		
Borrowings	70,000	73,000
Provisions	597	483
Deferred tax liabilities	903	376
<b>Total non-current liabilities</b>	<b>71,500</b>	<b>73,859</b>
<b>Total liabilities</b>	<b>302,758</b>	<b>171,040</b>
<b>Net assets</b>	<b>147,555</b>	<b>141,621</b>
Contributed equity	139,533	136,341
Reserves	409	273
Retained earnings	7,613	5,007
<b>Total equity</b>	<b>147,555</b>	<b>141,621</b>

## Mitchell Communication Group Limited Directors' declaration

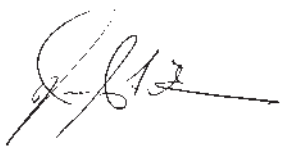
In the directors' opinion:

- (a) the financial statements and notes set out on pages 58 to 105 are in accordance with the Corporations Act 2001, including:
  - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance, for the financial year ended on that date; 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) at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 34 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 described in note 34.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

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



**Harold C Mitchell AC**  
Executive Chairman

Melbourne

30 September 2010

## Independent auditor's report to the members of Mitchell Communication Group Limited

### Report on the financial report

We have audited the accompanying financial report of Mitchell Communication Group Limited (the company), which comprises the balance sheet as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Mitchell Communication Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.



**Independent auditor's report to the members of  
Mitchell Communication Group Limited (continued)**

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

*Independence*

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

*Auditor's opinion*

In our opinion:

- (a) the financial report of Mitchell Communication 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 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.


**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 42 to 49 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's opinion*

In our opinion, the Remuneration Report of Mitchell Communication Group Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

  
PricewaterhouseCoopers

  
Nadia Carlin  
Partner

Melbourne  
30 September 2010

## Shareholder information

The shareholder information set out below was applicable as at 31 August 2010.

### A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

	Ordinary shares		
	Shares	Options	Performance rights
1 - 1,000	860	-	-
1,001 - 5,000	1,398	-	-
5,001 - 10,000	646	-	-
10,001 - 100,000	1,014	7	19
100,001 and over	129	1	2
<b>Total</b>	<b>4,047</b>	<b>8</b>	<b>21</b>

There were 346 holders of less than a marketable parcel of ordinary shares.

### B. Equity security holders

#### Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Ordinary shares	
	Number held	Percentage of issued shares %
Harold Mitchell	72,354,643	23.98%
Tora Bran Nominees Pty Ltd	17,322,122	5.74%
Allen & Co LLC group	17,000,000	5.63%
Amanda Mitchell	13,414,062	4.45%
Pan Australian Nominees Pty Ltd	10,546,730	3.50%
Brispot Nominees Pty Ltd	10,325,272	3.42%
National Nominees Pty Ltd	10,081,355	3.34%
ANZ Nominees Limited	9,970,152	3.30%
Stuart Mitchell	9,414,063	3.12%
HSBC Custody Nominees (Australia) Limited	9,136,067	3.02%
I7 Pty Ltd	7,337,921	2.43%
CS Fourth Nominees Pty Ltd	6,699,049	2.22%
RBC Dexia Investor Services Australia Nominees Pty Ltd	6,529,817	2.17%
Neweconomy.com.au Nominees Pty Ltd	6,000,000	1.99%
Beverly Mitchell	5,862,470	1.94%
Cogent Nominees Pty Ltd	4,725,400	1.57%
Citicorp Nominees Pty Ltd	4,337,952	1.44%
Amcil Limited	3,578,597	1.19%
J P Morgan Nominees Australia Limited	3,098,805	1.03%
Etrade Australia Nominees Pty Ltd	2,008,137	0.67%
Goldman Sachs & Partners Australia Nominees Pty Ltd	1,895,315	0.63%
<b>Total</b>	<b>231,637,929</b>	<b>76.78%</b>

#### Unquoted equity securities

Details of unquoted equity securities are listed below:

Name	Number on issue	Number of holders
Options issued under the emitch Limited Employee Option Plan to take up ordinary shares	664,602	8
Performance rights issued under the Mitchell Communication Group Executive Performance Rights Plan to take up ordinary shares	1,602,441	21

## Shareholder information (continued)

### C. Substantial holders

Substantial holders of ordinary shares in the company are set out below:

Name	Number held	Percentage of issued shares %
Harold Mitchell	72,354,643	23.98%
Tora Bran Nominees Pty Ltd	17,322,122	5.74%
Allen & Co LLC group	17,000,000	5.63%

### D. Voting rights

The voting rights attaching to each class of equity security are set out below:

#### (a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

#### (b) Options and performance rights

No voting rights.

# Mitchell Communication Group Limited

## Company particulars

<b>Directors</b>	
	<b>Harold C Mitchell AC</b> Chairman
	<b>Garry A Hounsell</b> Deputy Chairman
	<b>Stephen A Cameron</b>
	<b>Rodney J Lamplugh</b>
	<b>Stuart J Mitchell</b>
	<b>Naseema Sparks</b>
	<b>Robert J Stewart</b>
<b>Secretaries</b>	
	<b>Andrew J Seaburgh</b>
	<b>Dion G Cust</b>
<b>Principal registered office in Australia</b>	
	Level 4, 111 Cecil Street South Melbourne Victoria 3205 Ph: 03 9690 5544
<b>Country of incorporation</b>	
	Australia
<b>Share registry</b>	
	Computershare Investor Services Pty Ltd 452 Johnson Street Abbotsford Victoria 3067 Ph: 1300 85 05 05
<b>Auditor</b>	
	PricewaterhouseCoopers Freshwater Place 2 Southbank Boulevard Melbourne Victoria 3006
<b>Solicitors</b>	
	Mallesons Stephen Jaques Level 50, 600 Bourke Street Melbourne Victoria 3000
<b>Bankers</b>	
	Australia and New Zealand Banking Group Limited 287 Collins Street Melbourne Victoria 3000
<b>Stock exchange listings</b>	
	Shares are listed on the Australian Stock Exchange and trade under the code MCU.
<b>Website address</b>	
	<a href="http://www.mitchells.com.au">www.mitchells.com.au</a>



MEDIA PLANNING AND BUYING (OFFLINE AND ONLINE)

SEARCH ENGINE MARKETING

PR AND BRAND EXPERIENCE

DIGITAL CREATIVE AND TECHNOLOGY

VIDEO PRODUCTION

SPORTS GROUND MEDIA

CORPORATE SOCIAL RESPONSIBILITY

RESEARCH AND ANALYTICS