mcm entertainment group limited

Appendix 4E
Preliminary Final Report

Name of Entity	MCM Entertainment Group Limited
ABN	31 006 173 271
Financial Year Ended	30 June 2011 (previous corresponding period 30 June 2010)

Results for Announcement to the Market

Group Results

	$'000	up / down	movement
Revenues from ordinary activities	22,937	Down	(1%)
Gross profit	13,251	Down	(9%)
Net profit/(loss) for the period attributable to members	(2,131)	Down	(425%)

Group Ratios and Returns

	Current period	Previous period
Gross profit margin	58%	63%
Return on shareholders funds	(67%)	12%

Financial Statements – see attached financial report

- Statement of Financial Position.
- Statement of Comprehensive Income.
- Statement of Cash Flows.
- Statement of Changes in Equity.

Net Tangible Asset (NTA) Backing

	30 June 2011 cents	30 June 2010 cents
Net tangible asset backing per share	1.85	4.71

Dividends

There were no dividends paid or declared during the 2011 financial year.

DIVIDEND INFORMATION	Amount per share	Franked amount per share	Tax rate for franking
Interim dividend per share	0.00	0.00	n/a
Final dividend per share	0.00	0.00	n/a
Total dividends per share for the year	0.00	0.00	n/a

FINAL DIVIDEND DATES	
Ex dividend date	n/a
Record date	n/a
Payment date	n/a

Movements in Retained Earnings/ (Accumulated Losses)

	CONSOLIDATED	
	30 June 2011 $	30 June 2010 $
Retained earnings/(accumulated losses)		
Retained earnings/(Accumulated losses) at the beginning of the period	253,839	(401,091)
Profit/(loss) attributable to the members of the group	(2,131,346)	654,930
Retained earnings/(accumulated losses) at end of the period	**(1,877,507)**	**253,839**

Summary of Results

The overall year on year performance by MEG for the financial year was down across all businesses. The material loss for the year was predominately caused by two factors:

1. Decline in revenue in MCM Media and Igloo; and
2. The continued investment in movideo.

Year on year (YOY) total Group Revenue fell by 1.45% or $336,872. MCM Media's revenue declined by $524,772 (2.58%) and Igloo sales fell by $515,321 (15.86%). This was compounded by an increase in investment in movideo of approximately $1,700,000.

Consequently, the Group has recorded a Net Loss after Tax (NLAT) of $2,131,346 (2010: Net Profit after Tax (NPAT) of $654,930).

Other significant factors to note for the 30 June 2011 financial year are:

- movideo grew its revenue from $264,084 to $1,073,902.
- MCM Media grew it Digital Sales by over 20%.
- Gross Profit YOY was down $1,295,300 due largely to revenue shortfalls experienced by MCM Media and Igloo and movideo's cost of sales increasing by $1,153,336.
- Staff costs increased by $1,150,097 YOY. The net increase in costs was primarily caused by an expanded sales team in MCM Media and an increase in sales and development staff for movideo.
- Overall administration costs increased by $630,995 (2010: $333,256). This was predominately due to increase in staff numbers across MCM Media and movideo and expansion of movideo into new regions.
- No deferred tax asset relating to tax losses was recognised at 30 June 2011 due to uncertainty over the value of taxable income to be generated in the next three years.
- The Group's cash surplus of $649,166 at 30 June 2010 was reduced to an overdraft position of ($1,237,547) as at 30 June 2011. This was expected and as such management embarked on a capital raise process from August 2010. At the time of reporting, this process was continuing with advanced negotiations with a single capital investor on foot.

Group Overview

MEG operates three distinct revenue earning businesses: MCM Media Pty Ltd, Igloo Digital Pty Ltd and movideo Pty Ltd. The holding company, MCM Entertainment Group Limited, manages the overall Group and employs corporate staff and Directors.

MCM Media

MCM Media contributed a NPAT of $728,243 for the financial year (2010: $1,787,278). This was derived from Revenue of $19,808,538 (2010: $20,330,310). Despite investing more in its product and staff, anticipated increases in Revenue did not eventuate. This resulted in a decline in NPAT of $1,059,035 or 59.25%.

Other material factors to note about the year:

- Launched a new advertiser funded property known as 'Hoyts Insider'. This now provides yet another medium on which MCM Media supplies content.
- General advertising sales fell on the back of a fall in key account revenue and the fallout from the natural disasters experienced during the year.
- Breadth of actual media clients grew by over 20% for the year.

Igloo Digital

Igloo returned a disappointing result for the 2011 financial year. Sales fell to $2,734,680 for the year (2010: $3,250,001) and as a consequence a NLAT of $348,741 (FY2010: NPAT $83,806) was incurred. New business to drive the expanded team was not achieved and consequently a structural change to the Leadership team was made. Redundancies in excess of $150,000 were made during the year. Igloo has returned to profitability for the June 2011 quarter and continues to provide leading web solutions for its clients.

Other material factors to note for the year:

- Launched two major websites: mazda.com.au (for Mazda Australia) and bride.com.au (for Hardie Grant).
- Won key clients - Cricket Australia and VicHealth.
- Delivered a NPBT of $122,330 for the June 2011 quarter.
- Has developed some promising new business opportunities for the 2012 financial year.

movideo

movideo has continued its investment into product development and expansion into new regions. As a result, sales from licensing the movideo product and associated professional fees, revenue has grown from $264,084 to $1,073,902. A NLAT of $1,960,585 was within budget (2010: NLAT $1,151,941), but other factors to note for the financial year are:

- movideo began to deliver the online 'catch up TV' solution for Network Ten including ten.com.au, eleven.com.au and one.com.au from August 2010.
- A further nine clients across the Asian pacific region have been secured (including South China Morning Post).
- Beijing and Shanghai Offices have been established (with eight staff) to work on acquiring clients in China.
- A Singapore Office has been established.

Segment Information

Please refer to note 5 of the attached financials.

Subsequent Events

There have not been any other matter or circumstance, other than that referred to in the preliminary Financial Report or notes thereto, that have arisen since the end of the financial year, that have significantly affected, or may significant affect, the operations of the consolidated entity, the result of those operations or the state of affairs of the consolidated entity in future financial years.

Information on Audit

This report is based on accounts which have been audited – see attached audit report within the financial report.

Compliance statement

The report has been prepared in accordance with AASB Accounting Standards and Interpretations and also complies with International Reporting Standards (IFRS)

This report and the accounts upon which the report is based, use the same accounting policies.

This report does give a true and fair view of the matters disclosed.

This report is in accordance with the Corporations Act 2001

The entity has a formally constituted Audit and Risk Committee.

Simon Joyce
Chief Executive Officer
MCM Entertainment Group Limited

Date: 31 August 2011

mcm entertainment group limited

Financial Report to 30 June 2011

ABN 31 006 173 271

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Contents

Corporate Directory

Directors

Mr. Julien Playoust	Chairman
Mr. Gregory Smith	Non-Executive Director
Mr. Vincent Donato	Non-Executive Director
Mr. Michael Burgess	Executive Director (appointed 14 February 2011)
Mr. Anthony McGinn	Executive Director
Mr. Santiago Burridge	Non-Executive Director (resigned 27 January 2011)
Mr. Simon Joyce	Executive Director (appointed 01 July 2011)

Company Secretary
Mr. Andrew Metcalfe

Registered Office
Level 4
21-31 Goodwood Street
RICHMOND VIC 3121

Website
www.mcmentertainment.com

Auditor
Ernst & Young
8 Exhibition Street
MELBOURNE VIC 3000

Share Registry
Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
ABBOTSFORD VIC 3067

Bankers
HSBC Bank Australia Limited
333 Collins Street
MELBOURNE VIC 3000

Legal Advisors
Freehills
101 Collins Street
MELBOURNE VIC 3000

Stock Exchange
Australian Securities Exchange
ASX Code: MEG

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Directors' Report

The Directors of MCM Entertainment Group Limited submit their financial report for the year ended 30 June 2011.

Directors

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows:

Names, Qualifications, Experience and Special Responsibilities

Mr. Julien Playoust *Chairman - appointed 04 May 2010*
Julien Playoust is Managing Director of AEH Group, a Sydney-based private investment company. His professional career includes Andersen Consulting and Accenture and his experience includes capital structuring, mergers and acquisitions, strategy, change, technology and supply-chain programs within various sectors. Current external appointments include Director of Tatts Group Limited and Director of Australian Renewable Fuels Limited, both ASX-listed companies, and he is chairman of the Remuneration Committees for both companies. He is a Director of private equity company MGB Equity Growth Pty Limited, a Trustee of the Art Gallery NSW Foundation and on the Advisory Board of The Nature Conservancy. He is also a director of the Playoust Family Foundation. Julien is a member of the Australian Institute of Company Directors, Australian Institute of Management, Royal Australian Institute of Architects and The Executive Connection. He holds a Masters of Business Administration from AGSM, a Bachelor of Architecture First Class Honours and Bachelor of Science from Sydney University and a Company Director Course Diploma from the AICD.

Mr. Gregory Smith *Non-Executive Director - appointed 10 March 2009*
The course of Greg's career spans every facet of radio business management, culminating in his appointment to the position of Group Program Director of the Austereo Group. Under his direction, the Austereo Group achieved the unique position of having every single FM station in the Austereo Group at the number one position for the March 1992 radio survey. In 1995, Greg established a successful radio & research consulting business, servicing radio stations around the world and designing research projects for two of Australia's free to air commercial television networks. In 2007, he was inducted into the Commercial Radio Hall of Fame.

Mr. Vincent Donato *Non-Executive Director - appointed 11 May 2006*
Vincent Donato began his career in music and entertainment at Mushroom Records as an Accountant. He subsequently joined Network Ten as Financial Controller – Production and then went on to hold roles at Crawford Productions as Financial Controller and Shock Records as Group Financial Controller prior to becoming Group Finance Director. He then formed the record music label, Liberator Music, a member of the Mushroom Group of companies. Vincent also serves on the Audit and Risk Committee as Chairperson. He holds a Bachelor of Economics (Accounting) from LaTrobe University and is a Fellow of the CPA Australia and is a graduate of the Australian Institute of Company Directors. Vincent is a Director of:

- Targon Pty Ltd;
- Liberator Pty Ltd;
- Ivy League Pty Ltd (resigned 11 August 2011); and
- Mushroom Interactive Pty Ltd.

Mr. Michael Burgess *Executive Director and Chief Operating Officer - appointed 14 February 2011*
Michael Burgess has 20 years of Accounting and Operations experience. He has a Bachelor of Business (Accounting) and is a Chartered Accountant. After four years with Ernst & Young, he spent time working in a variety of finance roles within the funds management, sports marketing and management, manufacturing and advertising industries. In 1999 he joined MCM Entertainment Group as both Financial Controller and General Manager to assist in the growth of the Company. Michael is responsible for the day to day operations, financial reporting and budgeting for the Company.

Mr. Anthony McGinn *Executive Director and Chief Executive Officer Movideo (retired as Group Chief Executive Officer 30 June 2011)*

Anthony McGinn founded MCM Entertainment Group in 1983 and has been its Chief Executive Officer since that time. He has approximately 28 years international experience, industry knowledge and contacts within the entertainment, production, marketing and media industries. Anthony McGinn now holds the office of Chief Executive of Movideo Pty Ltd, the international digital media technology business owned by MCM Entertainment Group Ltd. Anthony is also Chairman of the Victorian children's cancer charity KOALA Foundation and Chairman of the Million Dollar Lunch fundraising committee.

Mr. Simon Joyce *Executive Director and Chief Executive Officer, MCM Entertainment Group - appointed 01 July 2011*
Simon Joyce has twelve years' experience in sales and marketing with a university and professional background in sports marketing. Since joining MCM Entertainment Group in 2001, he has transformed the MCM Media product, sales and marketing department through a focus on innovative cross platform solutions. Simon spent two years as National Sales Director, responsible for all commercial sales revenue across radio, digital, television and events, in all markets. He was then appointed CEO of MCM Media in 2008 where he was responsible for the day-to-day operations and strategic direction of the business nationally. In July 2011, Simon was appointed CEO and Managing Director of the MCM Entertainment Group overseeing the three subsidiaries being MCM Media, Movideo and Igloo. His vision is to maximise the competitive advantage that the group has through the unique combination of content, technology and design.

The following Director held office during the financial year but no longer holds office at the date of this report:

Mr. Santiago Burridge *Non-Executive Director - resigned 27 January 2011*
Santiago is a practicing partner in a boutique financial services firm, Vivid Financial and has worked within the business for 10 years. His current external appointments are as a Director of Premier Superannuation Services Pty Ltd, a leading provider of self-managed Superannuation fund services, Implemented Portfolios Pty Ltd a fledgling provider of Managed Account Services and Fund Management, and Lessinghams Financial Service Pty Ltd, which is a boutique Financial Planning Firm. He holds a Bachelor of Commerce from Griffith University, majoring in Economics and Finance and a Diploma in Financial Planning from Deakin University. He is a member of the Australian Institute of Company Directors.

Interests in the Shares and Options of the Company and Related Bodies Corporate

As at the date of this report, the interests of the Directors in the shares and options of MCM Entertainment Group Limited were:

	Number of ordinary shares	Number of options over ordinary shares
Julien Playoust*	332,660	Nil
Gregory Smith	50,000	Nil
Vincent Donato	Nil	Nil
Michael Burgess	16,605	200,000
Simon Joyce	25,000	200,000
Anthony McGinn^	23,573,866	300,000

* J. Playoust is the Managing Director of and has a minority interest in Australian Enterprise Holdings Pty Ltd (AEH). AEH's shareholding is held in trust by ABN Amro Clearing Sydney Nominees Pty Ltd (Next Custodian Account). AEH owns 4,363,355 MEG shares. Further, J. Playoust controls 332,660 MEG shares ATF J&M Playoust Superannuation Fund
^ including shares held by controlled entities and in trust

Company Secretary

Mr. Andrew Metcalfe (B.Bus, CPA, FCIS)
Andrew Metcalfe was appointed Company Secretary of MCM Entertainment Group Limited on 20 December 2007. Andrew has over 24 years' experience in finance and accounting and over 14 years as Company Secretary of a number of ASX listed companies. Andrew does not participate in the operational decision making of the company and assists the company in company secretarial processes and procedures, including corporate governance matters. Andrew is employed by Accosec Consultants.

Dividends

Final dividends recommended on ordinary shares	$Nil
Dividends paid in the 2011 year:	
- on ordinary shares	$Nil

Principal Activities

The principal activities during the year of the entities within the consolidated entity were:

- the provision of product and programming for national syndication and national publication of advertiser funded content to the radio, internet, mobile telephone and television mediums of Australia;
- website design and development; and
- the provision of technology to manage and deliver online streaming for local and international publishers of audio and audio visual content.

Operating and Financial Review

Operating Results for the Year

The overall year on year performance by MEG for the financial year was down across all businesses. The material loss for the year was predominately caused by two factors:

1. a decline in revenue in MCM Media and Igloo; and
2. the continued investment in movideo.

Year on year (YOY) total Group Revenue fell by 1.45% or $336,872. MCM Media's revenue declined by $524,772 (2.58%) and Igloo sales fell by $515,321 (15.86%). This was compounded by an increase in investment in movideo of approximately $1,700,000.

Consequently, the Group has recorded a Net Loss after Tax (NLAT) of $2,131,346 (2010: Net Profit after Tax (NPAT) of $654,930).

Other significant factors to note for the 30 June 2011 financial year are:

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- Staff costs increased by $1,150,097 YOY. The net increase in costs experienced was primarily caused by an expanded sales team in MCM Media and an increase in sales and development staff for movideo.
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- No deferred tax asset relating to tax losses was recognised at 30 June 2011 due to uncertainty over the value of taxable income to be generated in the next three years.
- The Group's cash surplus of $649,166 at 30 June 2010 was reduced to an overdraft position of ($1,237,547) as at 30 June 2011. This was expected and as such management embarked on a capital raise process in November 2010. At the time of reporting, this process was still on going.

Group Overview

MEG operates three distinct revenue earning businesses: MCM Media Pty Ltd, Igloo Digital Pty Ltd and movideo Pty Ltd. The holding company, MCM Entertainment Group Limited, manages the overall Group and employs corporate staff and Directors.

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Other material factors to note about the year:

- Launched a new advertiser funded property known as 'Hoyts Insider'. The cinema property provides yet another medium on which MCM Media supplies content.
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- A further nine clients across the Asian pacific region have been secured (including South China Morning Post).
- Beijing and Shanghai Offices have been established (with eight staff) to work on acquiring clients in China.
- A Singapore Office has been established.

Shareholder Returns

The Board has decided not to declare a dividend to Shareholders for the financial year ended 30 June 2011.

Review of Financial Condition

Liquidity and Capital Resources

The consolidated cash flow statement illustrates that there was a decrease in cash and cash equivalents of $1,886,713 for the financial year ended 30 June 2011 (FY2010: net cash inflow $1,398,858).

The decrease in the net cash position was mainly due to fall in revenue experienced by MCM Media and Igloo, which was materially compounded by the increased expenditure within movideo.

The Group incurred net cash outflows from investing activities of $601,438 (FY2010: $302,579). This amount relates to funding the final earn-out component of the acquisition of Igloo, other fixed asset and software purchases of $374,722 and the costs of establishing patents and perpetual licenses to enhance the capabilities of the real time analytics built by MCM Media and movideo.

Net cash outflows from financing activities of $65,482 relates primarily to payment of lease liabilities.

As at 30 June 2011 there was an overdraft balance of cash and cash equivalents of $1,237,547 (FY2010: $649,166). The current balance has taken the Group to a Gearing Ratio of 30%, which is at the top end of Management's desired range (refer Note 20) . In addition to the overdraft balance, at 30 June 2011 the Group had an available overdraft facility of $1,651,986. The Group's cash surplus of $649,166 at 30 June 2010 was reduced to an overdraft position of ($1,237,547) as at 30 June 2011. This was expected and as such management embarked on a capital raise process in from August 2010. At the time of reporting, this process was continuing with advanced negotiations with a single capital investor on foot..

Risk Management

The Company has an Audit and Risk Committee whose function is to identify and manage key risks within the business.

Significant Changes in the State of Affairs

There were no other significant changes in the state of affairs at 30 June 2011.

Subsequent Events

On 30 June 2011, the Group Chief Executive Officer, Anthony McGinn resigned from this position to take on the role of CEO for movideo. Anthony remains as an Executive Director of MCM Entertainment Group Ltd. This move will enable Anthony to focus on the performance of movideo.

As of 1 July 2011, Simon Joyce was promoted to the role of CEO, MCM Entertainment Group Ltd and appointed as a Director to the Board of MCM Entertainment Group Ltd. Simon will remain as the key Executive in charge of MCM Media and will focus on driving enhanced performance and profitability across all three entities: MCM Media, Igloo and movideo.

On 3 August 2011, a Free Share plan was created and 62 eligible employees were granted $1,000 in Free Shares (10,526 shares each at 9.5c). This was done to coincide with the introduction of the new Remuneration Structure introduced by Management and approved by the Board.

There were no further other matters or circumstances that have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the company, the results of those operations or the state of the affairs of the company in future financial periods.

Likely Developments and Future Results

Other than what has already been disclosed in the Directors' report and financial report, no further information has been provided on the likely developments in the operations of the group and the expected results of those operations in future financial years as the inclusion of such information is likely to result in unreasonable prejudice to the group.

Share Options

Unissued Shares

As at reporting date there were 1,275,000 unissued ordinary shares under the Employee Share Option Plan. In addition, there were 3,230,460 unissued ordinary shares under options which some employees became eligible for under the Executive Option and Share Plan. Refer to note 24 for further details. Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate.

Shares Issued as a Result of the Exercise of Options

During the financial year, no employees and/or Executives have exercised options to acquire fully paid ordinary shares in MCM Entertainment Group Limited.

Indemnification and Insurance of Directors and Officers

During the financial year, the company indemnified the Directors on a full indemnity basis and to the full extent permitted by law, against all losses and liabilities incurred by the Directors as Officers of the Company and of its related body corporates.

During or since the financial year, the company and Directors paid premiums in respect of a contract insuring all the Directors of MCM Entertainment Group Limited.

Directors' Meetings

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the numbers of meetings attended by each Director were as follows:

	Board meetings attended	Board meetings eligible	Audit & Risk committee meetings attended	Audit & Risk committee meetings eligible	Rem. committee meetings attended	Rem. committee meetings eligible
Number of meetings held	**10**		**3**		**6**	
Julien Playoust	10	10	3	3	6	6
Gregory Smith	10	10	-	-	6	6
Vincent Donato	9	10	3	3	-	-
Michael Burgess	5	5	3	3	-	-
Anthony McGinn	10	10	1	-	3	-
Simon Joyce	-	-	-	-	-	-
Santiago Burridge	5	5	-	-	3	3

Committee Membership

As at the date of this report, the company had an Audit and Risk Committee and a Nomination and Remuneration Committee.

Audit and Risk Committee

Continuing in the role of committee members for the 2011 financial year were Vincent Donato (Chair), Andrew Metcalfe (Company Secretary), and Julien Playoust. Although Andrew Metcalfe is not a sitting board member, he does attend committee meetings.

Nomination and Remuneration Committee

Greg Smith chaired the Committee, Santiago Burridge was a member until his resignation on 27 January 2011 at which time Julien Playoust joined the Committee.

ERNST & YOUNG

Auditor's Independence Declaration to the Directors of MCM Entertainment Group Limited

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

Ernst & Young

Ernst & Young

K Brown

Partner
31 August 2011

Non-Audit Services

In the 2011 financial year the entity's auditor, Ernst & Young provided non-audit services in the form of advice relating to a new Remuneration Structure for Staff and Key Executives, and taxation advice in respect of the expansion of movideo into China and Asia. The Directors remain satisfied that auditor independence was not compromised.

Remuneration Report (Audited)

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

Principles used to determine the Nature and Amount of Remuneration

During the 2011 Financial Year MCM Entertainment Group Ltd introduced a new Remuneration Scheme for Executives and Staff. The objective of the Group's executive reward framework is to ensure that reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders and is in line with market practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage/alignment of executive compensation;
- transparency;
- capital management; and
- attract and retain high-calibre executives.

In order to attract and retain high-calibre executives, MCM Entertainment Group Limited adopts the following principles:

- recognise and reward executives in accordance with capability and experience;
- align competitive rewards with contribution to growth in shareholder wealth; and
- provide a consistent and transparent reward framework.

The Board has established a Remuneration Committee which provides advice on remuneration and incentive policies and practices and specific recommendation on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors. The Corporate Governance Statement on pages 24 to 36 provides further information on the role of this committee.

Non-Executive Directors' Remuneration

Fees and payments to non-executive directors reflect the demands that are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board also has agreed to the advice of independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined based on fees of non-executive directors in comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration. Non-executive directors receive superannuation payments in accordance with statutory requirements, calculated as 9% of directors' fees. Payments are made directly to their individual superannuation funds.

Non-Executive Directors' Fees

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $400,000 per annum, covering all non-executive directors. Shareholders approved the directors' fees pool of $400,000 per annum at the 2007 Annual General Meeting (AGM) and was noted in the prospectus of December 2007.

The non-executive directors' fees (including superannuation) for 2011 are:

Julien Playoust, Chairman	$90,000
Greg Smith	$45,000
Vincent Donato	$45,000
Santiago Burridge	$24,500

Executive Remuneration

The executive pay and reward framework has three components, which comprises the executive total remuneration:

- Fixed Annual Remuneration including Statutory Superannuation (FAR);
- Short-term performance incentives through participation in the Executive Option and Share Plan; and
- Long-term incentives through participation in Executive Option and Share Plan;

Fixed Annual Remuneration (FAR)

It is delivered as a combination of cash and superannuation (restricted to the statutory limit).

External remuneration consultants were used to ensure FAR is set to reflect the market for a comparable role. FAR for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's FAR is also reviewed on promotion.

Other than CPI in prescribed circumstances there is no guaranteed base pay increases included in any senior executives' service contracts.

Executive directors' remuneration was reviewed during October 2010 through the use of external remuneration consultants using a comparator group selected on the basis of market capitalisation and company annual revenues.

Retirement benefits are delivered under the Statutory Guarantee Charge (SGC). Under current legislation, MCM Entertainment Group Limited provides choice of superannuation funds to all employees. The MCM Entertainment Group Limited default fund is the MCM Media Pty Ltd fund, which is provided by Colonial First State. This fund is an accumulation fund.

Other retirement benefits for directors may be provided directly by the company if the benefit is within statutory limits or is approved by shareholders.

Executive Option and Share Plan and Bonus Plan

Short-term incentives ("STI")

Select Executives participate in an executive share and option bonus plan and are eligible for cash incentives and share based incentives, combining the company's annual profit performance and the individual's personal performance. The level of the STI bonus is set as a percentage of the executive's base pay.

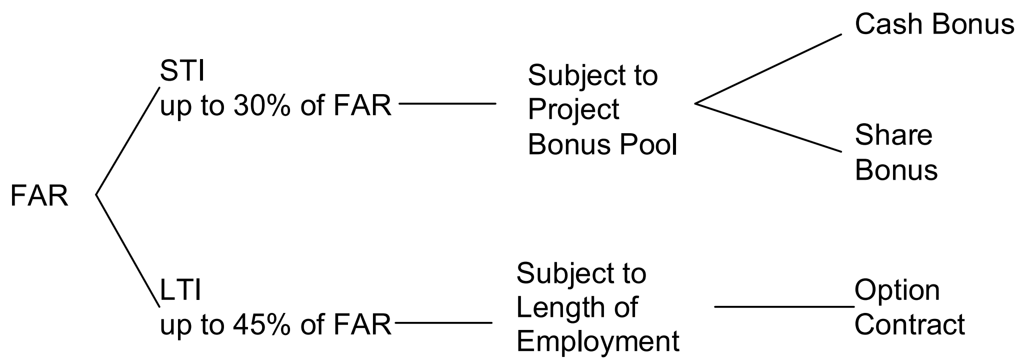
This method of providing short-term incentives aligns the executives with short-term shareholder wealth as expressed by company annual profits against targets, as well as an individual executive's performance.

Applicable bonuses under the new Plan will be paid annually, after the release of the company's annual results.

Long-term incentives ("LTI")

Similar to STI, this is based on a maximum value calculated as a percentage of base pay, ranging from 10% to 45%.

The LTI is awarded on tenure of each Executive so long as they remain employed by the Company. Eligible Executives can receive an amount of Options granted on a specified date over three years. Each grant of options vests over three years. Grants are only made to Executives in the employ of MCM. Options can be cancelled at Board discretion.



Amounts of Remuneration

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124: Related Party Disclosures and the Corporations Act 2001) of MCM Entertainment Group Limited are set out in the following tables.

The key management personnel of MCM Entertainment Group Limited include the directors and the following executive officers, who are also the highest paid executives:

Simon Joyce	Chief Executive Officer, MCM Entertainment Group Limited (effective 01 July 2011)
Michael Burgess	Chief Operating Officer, MCM Entertainment Group Limited (effective 01 July 2011)
Cameron Moore	Chief Technology Officer, MCM Entertainment Group Limited
Anthony McGinn	Chief Executive Officer, Movideo Pty Ltd (effective 01 July 2011)
Andrew Englisch	Chief Executive Officer, Igloo Digital Pty Ltd (resigned 11 October 2010)

Employment Contracts

Chief Executive Officer

The Group CEO, Mr. Simon Joyce, is employed under an Executive Service Agreement. The current employment contract commenced on 1 July 2011. Under the terms of the present contract:

- Mr. Joyce receives fixed remuneration of $435,000 per annum (including superannuation).

- The Company may terminate this Executive Service Agreement by providing not less than 12 months written notice due to failure of performance.
- The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the CEO is only entitled to any payments in lieu of notice or accrued leave based on the CEO's total remuneration, and only up to the date of termination. On termination with cause any unvested options will immediately be forfeited.

Other Executives

The company is in the process of completing new Executive Service Agreements for Anthony McGinn and Michael Burgess. Simon Joyce and Cameron Moore have agreements in place. The company may terminate the Executive's employment agreement by providing not less than 4 weeks written notice if terminated due to ongoing illness or by providing not less than 3 months written notice due to failure of performance or providing payment in lieu of the notice period (based on the fixed component of the Executive's remuneration). The company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the Executive is only entitled to any payments in lieu of notice or accrued leave based on total remuneration, and only up to the date of termination. On termination with cause any unvested options will immediately be forfeited.

Share-Based Compensation

Details of Options Plans

Options outstanding under all MCM Entertainment Group Limited Share Plans do not exceed 25% of the issued shares in MCM Entertainment Group Limited. Currently, non-executive directors are not entitled to participate in any MCM Entertainment Group Limited Share Plans.

Option Plan

An Option Plan started December 2007 with 1.5 million options issued. As at 30 June 2011 options issued under the Plan are 1,275,000. This plan concludes 22 November 2012 and the company does not intend issuing any more options from this plan.

All full-time employees (excluding executive directors) of MCM Entertainment Group Limited and controlled entities were eligible to participate in the plan.

Options were granted under the plan for no consideration. Each option is convertible into one ordinary share at any time (subject to vesting rules) on or before December 2012 after the date of issue at the specified exercised price. All options can be converted to ordinary shares at $0.20 per option.

Executive Option and Share Plan

The Executive Option and Share Plan was established to provide long-term incentives to senior managers and executives. The Plan is in existence to entice Senior Executives to remain with the Group.

The Plan is open to eligible senior executives of the company and its controlled entities, as determined by the Board.

Options are granted for no consideration. Each option is convertible to one ordinary share, subject to vesting and exercise rules, within three (3) years of the grant date, at the specified exercise price of $0.20. The number of options vesting in each period depends on tenure of employment by the Executives. Any options not vested in any period are forfeited.

The exercise price of options ($0.20) was determined by the Board.

Options granted under the plans will be issued for no consideration and carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share in MCM Entertainment Group Limited. Unvested options are forfeited if the executive ceases employment with MCM Entertainment Group Limited.

Employee Share Trust

MCM Entertainment Group Limited will establish an Employee Share Trust (EST) to oversee the administration of all current share plans. The Trustee of the EST is MCM Media Pty Ltd.

Options Granted, Vested and Lapsed during the Period

Details of options over ordinary shares in the company provided as remuneration to each director of MCM Entertainment Group Limited and each of the key management personnel of the parent entity and the Group are set out below. When exercisable, each option is convertible into one ordinary share of MCM Entertainment Group Limited. Further information on options is set out in note 24 to the financial statements.

The assessed fair value at the grant date of options and Performance Rights granted to the individuals is allocated over the period from grant date to vesting date and the amount is included in the remuneration tables below.

Group Performance

The group's performance is reflected in the movement of the Group's earnings per share (EPS) over time. The table below shows the group's basic EPS history since it was listed on the ASX (including the current period).

	31 Dec 2007 cents	30 June 2008 cents	31 Dec 2008 cents	30 June 2009 cents	31 Dec 2009 cents	30 June 2010 cents	31 Dec 2010 cents	30 June 2011 cents
Basic EPS	0.43	(0.54)	(0.16)	0.03	0.82	0.91	(1.09)	(2.97)

Remuneration for Key Management Personnel – Table 1

Remuneration for the year ended 30 June 2011	Short-term						Long-term		Share-based payment	Total	% Performance related
	Salary & fees	Cash bonus	Non-monetary Benefits	Other	Super-annuation	Retirement benefits	Incentive plans	Long service leave	Options		
	$	$	$	$	$	$	$	$	$	$	
Non-executive directors											
J. Playoust (Chairman)	82,569	-	-	-	7,431	-	-	-	-	90,000	-
V. Donato	41,284	-	-	-	3,716	-	-	-	-	45,000	-
G. Smith	41,284	-	-	1,500	3,716	-	-	-	-	46,500	-
S. Burridge*	22,477	-	-	-	2,023	-	-	-	-	24,500	-
Sub-total non-executive directors	**187,614**	**-**	**-**	**1,500**	**16,886**	**-**	**-**	**-**	**-**	**206,000**	**-**
Executive directors											
S. Joyce^	336,775	66,708	-	-	15,199	-	-	7,211	-	425,893	16%
M. Burgess	246,400	-	-	-	15,199	-	-	9,325	-	270,924	-
A. McGinn	425,736	-	8,822	-	15,199	-	-	9,974	-	459,731	-
Sub-total executive director	**1,008,911**	**66,708**	**8,822**	**-**	**45,597**	**-**	**-**	**26,510**	**-**	**1,156,548**	6%
Other key management personnel											
C. Moore	256,669	-	-	-	15,199	-	-	4,535	7,440	283,843	-
A. Englisch**	157,850	-	-	-	4,287	-	-	-	-	162,137	-
Sub-total executive key management personnel	**414,519**	**-**	**-**	**-**	**19,486**	**-**	**-**	**4,535**	**7,440**	**445,980**	**-**
Totals	**1,611,044**	**66,708**	**8,822**	**1,500**	**81,969**	**-**	**-**	**31,045**	**7,440**	**1,808,528**	**-**

* resigned 27 January 2011
^ appointed Group Chief Executive Officer 1 July 2011
** resigned 11 October 2010

Remuneration for Key Management Personnel – Table 2

Remuneration for the year ended 30 June 2010	Short-term						Long-term		Share-based payment	Total	% Performance related
	Salary & fees	Cash bonus	Non-monetary Benefits	Other	Super-annuation	Retirement benefits	Incentive plans	Long service leave	Options		
	$	$	$	$	$	$	$	$	$	$	
Non-executive directors											
J. Playoust (Chairman)*	5,975	-	-	-	538	-	-	-	-	6,513	-
V. Donato	37,462	-	-	-	3,372	-	-	-	-	40,834	-
G. Smith	34,786	-	-	4,500	2,856	-	-	-	-	42,142	-
S. Burridge^	5,975	-	-	-	538	-	-	-	-	6,513	-
Sub-total non-executive directors	**84,198**	**-**	**-**	**4,500**	**7,304**	**-**	**-**	**-**	**-**	**96,002**	**-**
Executive directors											
S. Joyce	326,300	311,364	-	-	14,461	-	-	7,684	3,432	663,241	47%
M. Burgess	229,623	29,720	-	-	14,461	-	-	7,064	3,432	284,300	10%
A. McGinn	408,624	52,887	7,496	-	14,461	-	-	11,881	5,149	500,498	11%
Sub-total executive director	**964,547**	**393,971**	**7,496**	**-**	**43,383**	**-**	**-**	**26,629**	**12,013**	**1,448,039**	**27%**
Other key management personnel											
C. Moore	251,000	-	-	-	14,461	-	-	3,123	-	268,584	-
A. Englisch#	175,283	-	-	-	14,461	-	-	1,176	-	190,920	-
Sub-total executive key management personnel	**426,283**	**-**	**-**	**-**	**28,922**	**-**	**-**	**4,299**	**-**	**459,504**	**-**
Totals	**1,475,028**	**393,971**	**7,496**	**4,500**	**79,609**	**-**	**-**	**30,928**	**12,013**	**2,003,545**	**20%**

* appointed chairman 3 August 2011
^ resigned 27 January 2011
# resigned 11 October 2010

Compensation Options: Granted and Vested during the year ended 30 June 2011 (Consolidated)

	GRANTED	TERMS AND CONDITIONS FOR EACH GRANT						VESTED	
	Number	Grant date	Fair value per option at grant date $	Exercise price per option $	Expiry date	First exercise date	Last exercise date	Number	%
Directors									
J. Playoust (Chairman)^	-	-	-	-	-	-	-	-	-
V. Donato	-	-	-	-	-	-	-	-	-
G. Smith	-	-	-	-	-	-	-	-	-
S. Burridge*	-	-	-	-	-	-	-	-	-
Executive director									
S. Joyce	200,000	10 Dec 07	0.06	0.20	22 Nov 12	31 Dec 09	22 Nov 12	200,000	100%
M. Burgess	200,000	10-Dec-07	0.06	0.20	22-Nov-12	31-Dec-09	22-Nov-12	200,000	100%
A. McGinn	300,000	10-Dec-07	0.06	0.20	22-Nov-12	31-Dec-09	22-Nov-12	300,000	100%
Other key management personnel									
C. Moore	50,000	10-Dec-07	0.05	0.20	22-Nov-12	30-Jun-09	22-Nov-12	50,000	100%
A. Englisch#	-	-	-	-	-	-	-	-	-
Total	**750,000**							**750,000**	**100%**

^ appointed chairman 3 August 2011
* resigned 27 January 2011
# resigned 11 October 2010

Options Granted as Part of Remuneration

During the year, five employees became eligible for 3,230,460 options under the Executive Option and Share plan. All other options granted relate to the Employee Share Option Plan and were issued in prior periods. This report is made in accordance with a resolution with the Board of Directors.

Simon Joyce
Chief Executive Officer

Melbourne, 31 August 2011

Corporate Governance Statement

The Board of Directors of MCM Entertainment Group Limited is responsible for the corporate governance of the Group. The Board guides and monitors the business and affairs of MCM Entertainment Group Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summarises the Company's compliance with the ASX Corporate Governance Council's Revised Principals and Recommendations.

Principals and Recommendations		Compliance	Comply
Principal 1 – Lay solid foundations for management and oversight			
1.1	Establish the functions reserved to the Board of Directors (Board) of MCM Entertainment Group Limited (Company) and those delegated to manage and disclose those functions.	The Board is responsible for the overall corporate governance of the Company. The Board has adopted a Board charter that formalises its roles and responsibilities and defines the matters that are reserved for the Board and specific matters that are delegated to management. On appointment of a Director, the Company issues a letter of appointment setting out the terms and conditions of appointment to the Board.The Board has adopted a Delegations of Authority that sets limits of authority for senior executives. The Board's responsibilities and the responsibilities delegated to senior executives are summarised in this Corporate Governance Statement.	Complies.
1.2	Disclose the process for evaluating the performance of senior executives.	Senior executives prepare strategic objectives that are reviewed and signed off by the Board. These objectives must then be met by senior executives as part of their key performance targets. The CEO reviews the performance of the senior executives against those objectives. The Board reviews the CEO's compliance against his and the company's objectives. These reviews occur annually.	Complies.
1.3	Provide the information indicated in *Guide to reporting on Principal 1.*	The Board charter has been disclosed on the Company's website and is summarised in this Corporate Governance Statement.	Complies.
		A performance evaluation process has been disclosed on the Company's website and is summarised in this Corporate Governance Statement.	Complies.

Principals and Recommendations		Compliance	Comply
		The Board conducted a performance evaluation of senior executives in the financial year in accordance with the process above.	Complies.
Principal 2 – Structure the Board to add value			
2.1	A majority of the Board should be independent Directors.	As at the date of this statement, the Board comprises three independent non-executive Directors and three non-independent executive Directors. The independent Director's are as follows: ▪ Julien Playoust ▪ Vincent Donato. ▪ Gregory Smith.	Does not comply. However the skills and experience of both the independent and non-independent directors allow the Board to act in the best interest of the Company and its shareholders. The casting vote of the Independent chairman means the majority view may be maintained with the independent NED's if necessary.
2.2	The Chair should be an independent Director.	Julien Playoust is an independent, non-executive Director of the Board.	Complies.
2.3	The roles of Chair and Chief Executive Officer should not be exercised by the same individual.	Julien Playoust is the Chair and Simon Joyce the Chief Executive Officer.	Complies.
2.4	The Board should establish a Nomination Committee.	The Board has established a Nomination and Remuneration Committee. The following Directors have been appointed to the Nomination and Remuneration Committee: ▪ Gregory Smith. ▪ Julien Playoust. The Board has undertaken a review of the mix of skills and experience on the Board in light of the Company's principal activities and direction, and has considered diversity in succession planning. The Board considers the current mix of skills and experience of members of the Board and its senior management is sufficient to meet the requirements of the Company. The Board supports the nomination and re-election of the directors at the Company's forthcoming Annual General Meeting.	Complies.
2.5	Disclose the process for evaluating the performance of the Board,	The Company conducts the processes outlined in its policy - 'Performance evaluation process in relation to the	Complies.

Principals and Recommendations		Compliance	Comply
	its Committees and individual Directors.	Board and its Committees' - which is available on the Company's website. The Board's induction program provides incoming directors with information that will enable them to carry out their duties in the best interests of the Company. This includes supporting ongoing education of Directors for the benefit of the Company.	
2.6	Provide the information indicated in the *Guide to reporting on Principal 2.*	The skills and experience of each Director has been disclosed (where applicable) in the Directors' Report attached to this Corporate Governance Statement. A Director is considered independent when he substantially satisfies the test for independence as set out in the ASX Corporate Governance Recommendations. Julien Playoust, non-executive Chair, was appointed to the Board on 04 May 2010 as a non-executive director. On 03 August 2010, Julien was elected chairman. Vincent Donato, non-executive Director, was appointed to the Board on 11 May 2006. Gregory Smith, non-executive Director, was appointed to the Board on 10 March 2009. Simon Joyce, Managing Director and Chief Executive Officer, was appointed to the Board on 1 July 2011. Anthony McGinn, Executive Director was appointed to the Board on 10 August 1983. Michael Burgess, Executive Director was appointed to the Board on 14 February 2011. Members of the Board are able to take independent professional advice at the expense of the Company. The Board has undertaken a review of the mix of skills and experience on the Board in light of the Company's principal activities and direction, and has considered diversity in succession planning. The Board considers the current mix of skills and experience of members of the Board and its senior management is sufficient to meet the	Complies. The Nomination and Remuneration Committee operates under a separate nomination committee charter. In addition, the Board does not consist of a majority of independent directors however the skills and experience of both the independent and non-independent directors allow the Board to act in the best interests of shareholders.

Principals and Recommendations		Compliance	Comply
		requirements of the Company. The Board intends to conduct a formal performance evaluation of the Board and its Committees during the next financial year. The Board, through the recommendation of the REM Committee will also conduct a performance evaluation of its senior executives in the next financial year. In accordance with the information suggested in *Guide to Reporting on Principle 2*, the Company has disclosed full details of its Directors in the Director's Report attached to this Corporate Governance Statement. Other disclosure material on the Structure of the Board has been made available on the Company's website.	
Principal 3 – Promote ethical and responsible decision making			
3.1	Establish a code of conduct and disclose the code or a summary of the code.	The Board has adopted a code of conduct and an Equal Employment Opportunity Policy. Both the code and policy establish a clear set of values that emphasise a culture encompassing strong corporate governance, sound business practices and good ethical conduct. Both the Code and Policy are available on the Company's website.	Complies in respect of establishing a clear set of values that emphasise a culture encompassing strong corporate governance, sound business practices and good ethical conduct.
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.	The Board has undertaken a review of the mix of skills and experience on the Board in light of the Company's principal activities and direction. The Company has adopted an Equal Employment Opportunity Policy and is committed to ensuring a workplace free of discrimination and harassment. The basis of employment decisions is the individual merit of employees. The Board will prepare a Diversity Policy that considers the benefits of diversity, ways to promote a culture of diversity, factors to be taken into account in the selection process of candidates for board and senior management positions in the Company, education programs to develop skills and experience in preparation for board and senior management positions, processes to include review and appointment of directors, and identify key measurable diversity performance objectives for the Board, CEO and senior	Does not comply with respect to a Diversity Policy that considers the benefits of diversity, ways to promote a culture of diversity, factors to be taken into account in the selection process of candidates for board and senior management positions in the Company, education programs to develop skills and experience in preparation for board and senior management positions, processes to include review and appointment of directors, and identify key measurable diversity performance objectives for the Board, CEO and senior

Principals and Recommendations		Compliance	Comply
		management.	management.
3.3	Provide the information indicated in *Guide to reporting on Principal 3.*	The Board has adopted a code of conduct and an Equal Employment Opportunity Policy. Both the code and policy establish a clear set of values that emphasise a culture encompassing strong corporate governance, sound business practices and good ethical conduct.	Complies.
		The Board does not have a Diversity Policy but has committed itself to prepare and adopt a policy. On completion and acceptance of a Diversity Policy, the Company will report in each annual report the measurable objectives for achieving gender diversity set by the Board.	Does not comply however the Board has committed the Company to review and prepare a Diversity Policy that considers all aspects of diversity in accordance with corporate governance guidelines.
		The Company has included in the Directors' Report the proportion of women employees and their positions held within the Company.	Complies.
Principal 4 – Safeguard integrity in financial reporting			
4.1	The Board should establish an audit Committee.	The Board has established an Audit and Risk Committee which operates under an Audit and Risk charter to focus on issues relevant to the integrity of the company's financial reporting.	Complies.
4.2	The Audit Committee should be structured so that it consists of only non-executive Directors, a majority of independent Directors, is chaired by an independent chair who is not a Chair of the Board and have at least 3 members.	Members of the Audit and Risk Committee are: ▪ Vincent Donato (Chair), ▪ Julien Playoust, and ▪ Andrew Metcalfe. Vincent Donato and Julien Playoust are both independent, non-executive Directors and Vincent is not Chair of the Board. Andrew Metcalfe is the Company Secretary to the Board. The Audit and Risk Committee does not comply with Recommendation 4.2 in that the Committee: ▪ does not consist of only non-executive Directors; and ▪ does not consist of at least 3 independent Directors.	Does not comply, however all members of the Audit and Risk Committee are financially literate and the Board considers that Mr. Donato, Mr. Playoust, and Mr. Metcalfe are the most appropriate members to constitute the Audit and Risk Committee given their technical, financial and accounting qualifications and expertise and detailed knowledge of the industry in which the Company operates within.

Principals and Recommendations		Compliance	Comply
4.3	The Audit Committee should have a formal charter.	The Board has adopted an Audit and Risk charter.	Complies.
4.4	Provide the information indicated in *Guide to reporting on Principal 4.*	In accordance with the information suggested in *Guide to Reporting on Principal 4,* this has been disclosed in the company's Directors' Report attached to this Corporate Governance Statement and is summarised in this Corporate Governance Statement. The members of the Audit and Risk Committee are appointed by the Board and recommendations from the Committee are presented to the Board for further discussion and resolution. The Audit and Risk Committee has held 3 meetings and meets approximately every 3-4 months. The Company's Audit and Risk charter is available on the Company's website.	Complies.
Principal 5 – Make timely and balanced disclosure			
5.1	Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	The Company has adopted a continuous disclosure policy, to ensure it complies with the continuous disclosure regime under the ASX Listing Rules and the Corporations Act 2001.	Complies.
5.2	Provide the information indicated in the *Guide to reporting on Principal 5.*	The Company's continuous disclosure policy is available on the Company's website.	Complies.
Principal 6 – Respect the rights of shareholders			
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose that policy or a summary of that policy.	The Company has adopted a shareholder communications policy. The Company uses its website (www.mcmentertainment.com), annual report, market announcements, electronic communications distributed via MCM Entertainment Group's share registry service agent and media disclosures to communicate with its shareholders, as well as encourage participation at general meetings.	Complies.
6.2	Provide the information indicated in the *Guide to reporting on Principal 6.*	The Company's shareholder communications policy is available on the Company's website.	Complies.

Principal 7 – Recognise and manage risk			
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of these policies.	The Company has adopted a risk management statement within the Audit and Risk charter. The Audit and Risk Committee is responsible for managing risk; however, ultimate responsibility for risk oversight and risk management rests with the Board. The Audit and Risk charter is available on the Company's website and the Company's risk statement is summarised in this Corporate Governance Statement.	Complies.
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	The Company has identified key risks within the business. In the ordinary course of business, management monitor and manage these risks on a fortnightly basis at senior executive leadership meetings. The Company also conducts an annual strategic review that identifies and isolates key risks, both new and existing, in the Company, resulting in strategies to manage these risks. Key operational and financial risks are presented to and reviewed by the Board at each Board meeting.	Complies.
7.3	The Board should disclose whether it has received assurance from the Chief Executive Officer and Chief Operations Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating efficiently and effectively in all material respects in relation to the financial reporting risks.	The Board has received a statement from the Chief Executive Officer and Chief Operations Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating efficiently and effectively in all material respects in relation to the financial reporting risks.	Complies.
7.4	Provide the information indicated in *Guide to reporting on Principal 7.*	The Board has adopted an Audit and Risk charter which includes a statement of the Company's risk policies. This Audit and Risk charter and risk statement is available on the Company's website and is summarised in this Corporate Governance Statement. The Company has identified key risks	Complies.

Principals and Recommendations		Compliance	Comply
		within the business and has received a statement of assurance from the Chief Executive Officer and Chief Operations Officer.	
Principal 8 – Remunerate fairly and responsibly			
8.1	The Board should establish a Remuneration Committee.	The Board has established a Nomination and Remuneration Committee and operates in accordance with the Remuneration Committee charter for focusing the Company on appropriate remuneration policies. Members of the Nomination and Remuneration Committee are: ▪ Gregory Smith, and ▪ Julien Playoust. Both members are independent, non-executive Directors.	Complies.
8.2	Clearly distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives.	The Company complies with the guidelines for executive remuneration packages and non-executive Director remuneration. Executive director remuneration packages are included in the Remuneration Report within the Directors' Report attached to this Corporate Governance Statement. No senior executive is involved directly in deciding their own remuneration. The Company does not have any schemes for retirement benefits other than superannuation for non-executive Directors.	Complies.
8.3	Provide the information indicated in *the Guide to reporting on Principal 8.*	The Board has adopted a Remuneration Committee charter. This charter is available on the Company's website and is summarised in this Corporate Governance Statement. In accordance with the information suggested in *Guide to Reporting on Principal 8,* this has been disclosed in the Remuneration Report within the Directors' Report attached to this Corporate Governance Statement and is summarised in this Corporate Governance Statement.	Complies.

MCM Entertainment Group Limited's corporate governance practices were in place throughout the year ended 30 June 2011 and to the date of signing the Directors' Report attached to this Corporate Governance Statement.

Various corporate governance practices are discussed within this statement. For further information on corporate governance policies adopted by MCM Entertainment Group Limited, refer to our website:

http://www.mcmentertainment.com

Board Functions

The role of the Board of MCM Entertainment Group Limited is as follows:

- Representing and serving the interests of shareholders by overseeing and appraising the strategies, policies and performance of the Company. This includes overviewing the financial and human resources the Company has in place to meet its objectives and the review of management performance.
- Protecting and optimising Company performance and building sustainable value for shareholders in accordance with any duties and obligations imposed on the Board by law and the Company's constitution and within a framework of prudent and effective controls that enable risk to be assessed and managed.
- Responsible for the overall Corporate Governance of MCM Entertainment Group Limited and its controlled entities, including monitoring the strategic direction of the Company and those entities, formulating goals for management and monitoring the achievement of those goals.
- Setting, reviewing and ensuring compliance with the Company's values (including the establishment and observance of high ethical standards).
- Ensuring shareholders are kept informed of the Company's performance and major developments affecting its state of affairs.

Responsibilities/functions of the Board include:

- selecting, appointing and evaluating from time to time the performance of, determining the remuneration of, and planning for the successor of, the Chief Executive Officer (CEO);
- reviewing procedures in place for appointment of senior management and monitoring of its performance, and for succession planning. This includes ratifying the appointment and the removal of the Chief Operations Officer and the Company Secretary;
- input into and final approval of management development of corporate strategy, including setting performance objectives and approving operating budgets;
- reviewing and guiding systems of risk management and internal control and ethical and legal compliance. This includes reviewing procedures in place to identify the main risks associated with the Company's businesses and the implementation of appropriate systems to manage these risks;
- monitoring corporate performance and implementation of strategy and policy;
- approving major capital expenditure, acquisitions and divestitures, and monitoring capital management;
- monitoring and reviewing management processes in place aimed at ensuring the integrity of financial and other reporting;
- monitoring and reviewing policies and processes in place relating to occupational health and safety, compliance with laws, and the maintenance of high ethical standards; and
- performing such other functions as are prescribed by law or are assigned to the Board.

In carrying out its responsibilities and functions, the Board may delegate any of its powers to a Board Committee, a Director, employee or other person subject to ultimate responsibility of the Directors under the Corporations Act.

Matters which are specifically reserved for the Board or its Committees include the following:

- appointment of a Chair;
- appointment and removal of the CEO;
- appointment of Directors to fill a vacancy or as additional Director;
- establishment of Board Committees, their membership and delegated authorities;
- approval of dividends;
- development and review of corporate governance principals and policies;
- approval of major capital expenditure, acquisitions and divestitures in excess of authority levels delegated to management;
- calling of meetings of shareholders; and
- any other specific matters nominated by the Board from time to time.

Structure of the Board

The Company's constitution governs the regulation of meetings and proceedings of the Board.

The Board determines its size and composition, subject to the terms of the constitution. The Board does not believe that it should establish a limit on tenure other than stipulated in the company constitution.

While tenure limits can help to ensure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of Directors who have been able to develop, over a period of time, increasing insight in the Company and its operation and, therefore, an increasing contribution to the Board as a whole. It is intended that the Board should comprise a majority of independent non-executive Directors and comprise Directors with a broad range of skills, expertise and experience from a diverse range of backgrounds. It is also intended that the Chair should be an independent non-executive Director. The Board regularly reviews the independence of each Director in light of the interests disclosed to the Board.

The Board only considers Directors to be independent where they are independent of management and free of any business or other relationship that could materially interfere with - or could reasonably be perceived to interfere with - the exercise of their unfettered and independent judgment. The Board works to achieve defined independence as in Principal 2 of the ASX Corporate Governance Revised Principals and Recommendations. The Board will review the independence of each Director in light of interests disclosed to the Board from time to time.

In accordance with the definition of independence above, and the materiality thresholds set, the following Directors of MCM Entertainment Group Limited are considered to be independent:

Name	**Position**
Julien Playoust	Non-executive Director, Chairman
Vincent Donato	Non-executive Director
Gregory Smith	Non-executive Director

As at 01 July 2011, the Board had the same number of Non-executive and Executive Directors. The Board will look to introduce another Non-executive Director to achieve independence.

There are procedures in place, agreed by the Board, to enable Directors in furtherance of their duties to seek independent professional advice at the Company's expense.

The term in office held by each Director in office at the date of this statement is as follows:

Name	**Position**	**Term in Office**
Julien Playoust	Chairman, non-executive Director	appointed Chairman 03 August 2010
Gregory Smith	Non-executive Director	Appointed 10 March 2009
Vincent Donato	Non-executive Director	Appointed 11 May 2006
Michael Burgess	Executive Director	Appointed 14 February 2011
Anthony McGinn	Executive Director	Appointed 10 August 1983
Simon Joyce	Managing Director	Appointed 1 July 2011

Mr. Santiago Burridge, who resigned as a director on 27th January 2011, was a non-executive independent Director throughout the year and up to the date of his resignation.

Further details on each Director can be found in the Directors' Report attached to this Corporate Governance Statement.

Securities Trading Policy

Under the Company's Guidelines for Dealing in Securities Policy, a Director or Company employee must not trade in any securities of the Company at any time when they are in possession of unpublished price sensitive or 'inside' information in relation to those securities.

Relevant Persons are permitted to buy or sell the Company's securities throughout the year except during the period up to 30 days preceding the following:

- the announcement of half-yearly financial results;
- the announcement of annual financial results; or
- the holding of a shareholders meeting;

and ending two days after the end of the day of the announcement of the company's financial results or the holding of the shareholders meeting to allow the market to absorb the contents of the announcement (Non Trading Period).

Outside of the Non Trading Period (before commencing to trade) a Director must first obtain the approval of the Chairman to do so; the Chairman must first obtain approval from the Board; and all other employees must inform and receive approval from the Company Secretary.

As required by the ASX Listing Rules, the Company notifies the ASX of any transaction conducted by Directors in the securities of the Company within five days of the transaction taking place.

The Securities Trading Policy has been issued to ASX and can be found on the Company's website.

Audit and Risk Committee

The Board has established an Audit and Risk Committee which operates under a Charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations, such as the benchmarking of operational key performance indicators. The Board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the Audit and Risk Committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

The members of the Audit and Risk Committee during the year were:

- Vincent Donato (non-executive Director) holds a Bachelor of Economics (Accounting) from LaTrobe University and is a Fellow of CPA Australia.
- Julien Playoust (non-executive Director) holds a Masters of Business Administration from AGSM, a Bachelor of Architecture First Class Honours and Bachelor of Science from Sydney University and a Company Director Course Diploma from the AICD.
- Michael Burgess (Chief Operations Officer, executive Director) holds a Bachelor of Business (Accounting) from Deakin University and is a Chartered Accountant.
- Andrew Metcalfe (Company Secretary) holds a Bachelor of Business (Accounting and IT) from Swinburne University, is a Certified Practicing Accountant and a Fellow of the Chartered Institute of Secretaries.

For details on the number of meetings of the Audit and Risk Committee held during the year and the attendees at those meetings, refer to the Directors' Report.

Risk

The responsibility of overseeing risk falls within the charter of the Audit and Risk Committee. The Committee identifies areas of risk within the Company and continuously undertakes a risk assessment of the Company's operations, procedures and processes. The risk assessment is aimed at ensuring the following:

- a culture of risk control and the minimisation of risk throughout the Company, which is occurring through natural or instinctive process by employees of the Company;
- a culture of risk control that can easily identify risks as they arise and amend practices;
- the installation of practices and procedures in all areas of the business that are designed to minimise an event or incident that could have a financial or other effect on the business and its day to day management; and
- adoption of these practices and procedures to minimise many of the standard commercial risks, i.e. taking out the appropriate insurance policies, or ensuring compliance reporting is up to date.

CEO and COO Certification

The Chief Executive Officer and Chief Operating Officer have provided a written statement to the Board that in their view:

1. the Company's financial report is founded on a sound system of risk management and internal compliance and control, which implements the financial policies adopted by the Board; and

2. the Company's risk management and internal compliance and control system is operating effectively in all material respects.

Performance

The performance of key Executives is reviewed regularly using both measurable and qualitative indicators.

Into the new financial year, Directors will provide written feedback in relation to the performance of the Board and its Committees against a set of agreed criteria.

- Each Committee of the Board will also be required to provide feedback in terms of a review of its own performance.
- Feedback will be collected by the chair of the Board, or an external facilitator, and discussed by the Board, with consideration being given as to whether any steps should be taken to improve performance of the Board or its Committees.
- The Chief Executive Officer will also provide feedback from senior management in connection with any issues that may be relevant in the context of Board performance review.
- Where appropriate to facilitate the review process, assistance may be obtained from third party advisers.

Remuneration

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating Directors and key executives fairly and appropriately, with reference to relevant employment market conditions. To assist in achieving this objective, the Board links the nature and amount of executive Directors' and Officers' remuneration to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- retention and motivation of key executives;
- attraction of high quality management to the Company; and
- performance incentives that allow executives to share in the success of MCM Entertainment Group Limited.

For a more comprehensive explanation of the Company's remuneration framework and the remuneration received by Directors and senior executives in the current period, please refer to the Remuneration Report, which is contained within the Directors' Report.

There is no scheme to provide retirement benefits to executive or non-executive Directors.

The Nomination and Remuneration Committee is responsible for determining and reviewing compensation arrangements for the Directors themselves, the Chief Executive Officer and the executive team.

The Nomination and Remuneration Committee dealt with all remuneration issues during the financial year ended 30 June 2011. In carrying out its duties, the Nomination and Remuneration Committee operated in accordance with the Remuneration Committee Charter.

For details on the number of meetings of the Nomination and Remuneration Committee held during the year and the attendees at those meetings, refer to the Directors' Report.

Financial Statements

Statement of Financial Position as at 30 June 2011

		CONSOLIDATED	
		30 June 2011	30 June 2010
	note	**$**	$
Current assets			
Cash and cash equivalents	10	110,467	649,166
Trade and other receivables	11	5,441,891	4,443,881
Deferred production expenditure		317,598	218,720
Prepayments		197,717	181,092
Total current assets		**6,067,673**	**5,492,859**
Non-current assets			
Deferred tax assets	7	664,531	595,547
Property, plant and equipment	13	1,348,254	1,475,186
Intangible assets and goodwill	14	1,851,421	1,915,796
Total non-current assets		**3,864,206**	**3,986,529**
TOTAL ASSETS		**9,931,879**	**9,479,388**
Current liabilities			
Trade and other payables	16	2,624,549	2,580,485
Unearned revenue		2,188,137	701,058
Interest bearing liabilities	18	1,412,252	56,192
Provisions	17	305,720	502,543
Total current liabilities		**6,530,658**	**3,840,278**
Non-current liabilities			
Interest bearing liabilities	18	42,657	106,895
Provisions	17	176,665	232,163
Total non-current liabilities		**219,322**	**339,058**
TOTAL LIABILITIES		**6,749,980**	**4,179,336**
NET ASSETS		**3,181,899**	**5,300,052**
EQUITY			
Ordinary shares	20	4,940,113	4,940,113
Share based payments reserve	21	122,123	106,100
Foreign currency translation reserve		(2,830)	-
Retained earnings/(accumulated losses)	21	(1,877,507)	253,839
TOTAL EQUITY		**3,181,899**	**5,300,052**

Statement of Comprehensive Income for the year ended 30 June 2011

	note	CONSOLIDATED 30 June 2011 $	30 June 2010 $
Sales revenue	6	22,937,278	23,274,150
Cost of sales		(9,686,140)	(8,727,712)
Gross Profit		**13,251,138**	**14,546,438**
Employee benefits expense	6	(11,058,323)	(9,908,226)
Property expenses		(820,387)	(760,719)
Administration expenses		(2,429,904)	(1,798,909)
Sales & marketing expenses		(275,641)	(242,877)
Foreign currency gains/(losses)		30,436	2,262
Operating Expenses		**(14,553,819)**	**(12,708,469)**
Profit/(loss) before interest, depreciation & amortisation		**(1,302,681)**	**1,837,969**
Depreciation & amortisation	6	(767,634)	(708,679)
Profit/(loss) before interest & taxation		**(2,070,315)**	**1,129,290**
Interest expense	6	(130,015)	(76,023)
Profit/(loss) before income tax		**(2,200,330)**	**1,053,267**
Income tax benefit/(expense)	7	68,984	(398,337)
Profit/(loss) from continuing operations after income tax		**(2,131,346)**	**654,930**
Other comprehensive income			
Foreign currency translation		(2,830)	-
Total other comprehensive income		**(2,830)**	**-**
Total comprehensive income/(loss) for the period		**(2,134,176)**	**654,930**
Earnings per share for profit			
attributable to the ordinary equity holders of the company:			
Basic earnings per share (cents)	9	(2.97)	0.91
Diluted earnings per share (cents)	9	n/a	n/a

Statement of Cash Flows for the year ended 30 June 2011

	note	CONSOLIDATED 30 June 2011 $	30 June 2010 $
Cash flows from operating activities			
Receipts from customers and related parties		24,093,897	23,496,812
Payments to suppliers and employees		(24,909,898)	(21,542,437)
Interest received		4,553	3,917
Interest & other financial expenses paid		(134,568)	(79,940)
Income tax paid		(273,777)	(83,042)
Net cash flows from operating activities	**10**	**(1,219,793)**	**1,795,310**
Cash flows from investing activities			
Purchase of business		(50,000)	(75,000)
Purchase of property, plant and equipment		(374,722)	(183,120)
Purchase of intangibles		(176,716)	(44,459)
Net cash flows used in investing activities		**(601,438)**	**(302,579)**
Cash flows from financing activities			
Payments of finance lease liabilities		(56,192)	(93,873)
Payment of debt raising costs		(9,290)	-
Net cash flows used in financing activities		**(65,482)**	**(93,873)**
Net cash increase/ (decrease) in cash and cash equivalents		**(1,886,713)**	**1,398,858**
Cash and cash equivalents at beginning of period		**649,166**	**(749,692)**
Cash and cash equivalents/(overdraft) at end of period		**(1,237,547)**	**649,166**

Statement of Changes in Equity for the year ended 30 June 2011

CONSOLIDATED	Ordinary shares $	Retained earnings/ (accumulated losses) $	Share based payments reserve $	Foreign currency translation reserve $	Total $
Balance at 1 July 2009	**4,940,113**	**(401,091)**	**91,513**	**-**	**4,630,535**
Total profit/(loss) for the year	-	654,930	-	-	654,930
Other comprehensive Income	-	-	-	-	-
Total comprehensive income	**-**	**654,930**	**-**	**-**	**654,930**
Transactions with owners in their capacity as owners:					
Employee share option plan	-	-	14,587	-	14,587
At 30 June 2010	**4,940,113**	**253,839**	**106,100**	**-**	**5,300,052**
Profit/(Loss) for the year	-	(2,131,346)	-	-	(2,131,346)
Other comprehensive income	-	-	-	(2,830)	(2,830)
Total comprehensive income	**-**	**(2,131,346)**	**-**	**(2,830)**	**(2,134,176)**
Transactions with owners in their capacity as owners:					
Employee share option plan	-	-	16,023	-	16,023
Balance at 30 June 2011	**4,940,113**	**(1,877,507)**	**122,123**	**(2,830)**	**3,181,899**

Notes to Financial Statements

1. Corporate Information

The financial report of MCM Entertainment Group Limited (the Company) for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the Directors on 29 August 2011.

MCM Entertainment Group Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

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

2. Summary of Significant Accounting Policies

Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars.

a) Compliance with IFRS

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

b) New Accounting Standards and Interpretation

The following amendments to standards and interpretations were made.
These changes have no current material impact for the Group as at 30 June 2011:

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project;*
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]; and*
- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139].*

The following standards and interpretations have been issued by the AASB but are not yet effective for the period ending 30 June 2011.
These changes have no current material impact for the Group as at 30 June 2011:

- AASB 9 *Financial Instruments;*
- AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12];*
- AASB 124 (Revised) *Related Party Disclosures (December 2009);*
- AASB 2009-12 *Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052];*
- AASB 1054 *Australian Additional Disclosures;*

- AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13];*
- AASB 2010-5 *Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042];*
- AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127];*
- AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132, AASB 134, Interpretation 2, Interpretation 112, Interpretation 113];*
- IFRS 10 *Consolidated Financial Statements; and*
- IFRS 13 *Fair Value Measurement.*

c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of MCM Entertainment Group Limited and its subsidiaries as at and for the year ended 30 June 2011.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group. The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

d) Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team. Refer to note 5 for further information.

e) Foreign Currency Translation

Functional and Presentation Currency

Both the functional and presentation currency of MCM Entertainment Group Limited and its Australian subsidiaries are Australian dollars ($). The functional currency of Movideo Digital Networking Technology Services (Beijing) Ltd is Renminbi (RMB) whilst the presentation currency for this entity is also Chinese Renminbi (RMB).

Transactions & Balances

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

Translation of Group Companies Functional Currency to Presentation Currency

All realised exchange differences in the consolidated financial report are taken to the income statement. All unrealised exchange rate differences are taken to the Balance Sheet.

f) Cash and Cash Equivalents

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

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the balance sheet.

g) Trade and Other Receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor and default payments are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

h) Deferred Revenue/Production Costs

Production expenses work in progress are valued at the lower of cost and net realisable value. Costs incurred in the production of new programmes are recognised as an asset (deferred production costs) where future economic benefits are expected to be derived. When customers are billed in advance for production costs a negative inventory balance may arise and is reclassified as deferred revenue.

i) Property, Plant and Equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. All other repairs and maintenance are recognised in profit or loss as incurred.

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

	Useful Life
Office and Studio Equipment	2.5 to 13.5 years
Furniture, fixtures and fittings	4.0 to 20 years

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

Impairment

The carrying values of plant and equipment are tested for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value. An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

Assets that have suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

j) Leases

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

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

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

k) Goodwill and Intangibles

Goodwill

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised, instead it is tested for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the appropriate cash-generating unit being either the business of MCM Media Pty Ltd or Igloo Digital Pty Ltd. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment determined in accordance with AASB 8.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Impairment losses recognised for goodwill are not subsequently reversed.

Intangibles – Brand Names

The Group's brand names, underpinned by registered trademarks, meet the definition of an intangible asset held at cost under AASB 138: Intangible Assets and are disclosed on this basis.

These assets were acquired as part of the business combination which occurred on 25 November 2005. They were initially recorded at fair value and then subsequently carried at cost less accumulated amortisation and impairment charges, if any.

The Directors have determined that the brand names have a finite useful life of seven years and are amortised over this period. This determination is reviewed at the end of each annual reporting period.

Impairment occurs when there is an indicator that the asset may be impaired. When the asset has suffered impairment it is tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

Intangibles – Capitalised Web Site Costs

Web site development expenditure incurred is carried forward when its future recoverability can reasonably be regarded as assured and the expenditure can be reasonably measured. Costs attributed to full time staff working on web development projects are predominately expensed. Staff contracted specifically for web development projects are capitalised when the future recoverability of that work can be assured.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

The capitalised expenditure carried forward is amortised over two and a half years.

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project or 2.5 years whichever is less.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use or more frequently when an indication of impairment arises during the reporting period.

Intangibles – Development Costs

Development costs are carried at cost less accumulated amortisation and accumulated impairment losses. The development costs have been assessed as having a finite life and is amortised using the prime cost method over a period of 2.5 years. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

A summary of the policies applied to the Group's intangible assets is as follows:

	Trademarks	Capitalised website cost/development costs
Useful lives	Finite	
Method used	7 years – straight line	2.5 years – straight line
Internally generated/acquired	Acquired	Internally generated
Impairment test/recoverable amount testing	Carrying value and amortisation method reviewed annually if there is an indication of impairment.	

l) Trade and Other Payables

Trade and other payables are carried at amortised cost due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

m) Interest Bearing Loans and Borrowings

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

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

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.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

n) Borrowing Costs

Borrowing costs are recognised as an expense when incurred. MCM Entertainment Group Limited does not currently hold qualifying assets but, if it did, the borrowing costs directly associated with this asset would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

o) Provisions and Employee Benefits

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Employee Leave Benefits

Wages, 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 respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

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

p) Share-Based Payment Transactions

Equity Settled Transactions

The Group has provided benefits to a number of its employees including key management personnel (KMP) in the form of an Option Plan and Employee Share Acquisition Plan.

MCM Entertainment Group Limited has adopted the Employee Share Option Plan.

The Employee Share Option Plan provides benefits to Directors, senior Executives and management. The allocation of options under the option plan was to senior staff and management at the Board's discretion.

In the 2011 financial year, the Board approved the Executive Option and Share Plan with a partial roll out completed by 30 June 2011. For further information, please refer to note 24.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a binomial model, further details of which are given in note 24.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of MCM Entertainment Group Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of:

- the grant date fair value of the award;
- the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- the expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity. Equity-settled awards granted by MCM Entertainment Group Limited to employees of subsidiaries are recognised in the parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised by MCM Entertainment Group Limited in relation to equity-settled awards only represents the expense associated with grants to employees within the Group. The expense recognised by the Group is the total expense associated with all such awards.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification. If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

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

q) 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.

r) Revenue Recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of Services

Income derived from airtime sales is recognised based on when services to the customers are rendered, that is when the advertising is aired. Where services are yet to be rendered, income received in advance is recorded as deferred revenue.

Interest Revenue

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

Dividends

Revenue is recognised when the Group's right to receive the payment is established.

s) Income Tax and Other Taxes

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

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

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax

asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

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

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

Tax Consolidation Legislation

MCM Entertainment Group Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003. The head entity, MCM Entertainment Group Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, MCM Entertainment 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.

Other Taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

t) Earnings Per Share

Basic earnings per share is determined by dividing the net profit/(loss) for the period attributable to members by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses;
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; and

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

u) Business Combinations

Subsequent to 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquire and the equity issued by the acquirer and the amount of any non-controlling interest in the acquire. Acquisition related costs are expensed as incurred and included in administrative expenses. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is measured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Prior to 1 January 2010

In comparison to the above-mentioned requirements, the following difference applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs.

3. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise receivables, payables, overdrafts, finance leases, and cash.

The main purpose of these financial instruments is to raise finance for the Group's operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate risk and assessments of market forecasts for interest rate. Analysis and monitoring of credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts, which are performed on a weekly and monthly basis.

Primary responsibility for identification and control of financial risks rests with the Audit and Risk Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including interest rate risk, credit and future cash flow forecast projections.

Fair Values

The fair values of the group’s financial instruments are materially consistent with the carrying amounts recognised in the financial statements.

Risk Exposures and Responses

Interest Rate Risk

The Group's exposure to market interest rates relates primarily to the Group's overdraft facility provided by HSBC Bank Australia Limited.

At balance date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk that are not designated in cash flow hedges:

	CONSOLIDATED	
	2011	2010
	$	$
Financial assets		
Cash and cash equivalents	110,467	649,166
	110,467	**649,166**
Financial liabilities		
Bank overdraft	1,348,014	-
	1,348,014	**-**
Net exposure	**(1,237,547)**	**649,166**

The Group regularly analyses its interest rate exposure, cash and debt levels.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date.

At 30 June 2011, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	NET PROFIT AFTER TAX	
	Higher / (Lower)	
	2011	2010
Judgements of reasonably possible movements:	**$**	**$**
Consolidated		
+0.5% (50 basis points)	(4,331)	2,272
-0.5% (50 basis points)	4,331	(2,272)

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances. The sensitivity for the group is higher in 2011 than 2010 due to an increased exposure to debt.

Foreign Currency Risk

The Group's foreign currency charge has decreased year on year due to an increase in the Australian dollar. However the exposure to foreign currency risk is still considered to be immaterial. The Group sources some product from overseas suppliers but the value and volume of supply is not sufficient to warrant policies on hedging.

The Group holds USD and RMB bank accounts however these balances are considered to be immaterial and as such do not warrant policies or hedging.

Credit Risk

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group’s exposure to bad debts is limited.

There are no significant concentrations of credit risk within the Group. The company has the majority of customers concentrated in the Australian media industry and the majority remit payment on 45 days which is industry standard.

Despite the increase in trade debtors in the current period relative to the prior period, the nature of the customers are consistent year on year. The increase in debtors is attributable to strong media sales in the last quarter of the 2011 financial year. Refer to note 11 for ageing of receivables.

Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, finance leases and committed available credit lines.

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as of 30 June 2011.

YEAR ENDED 30 JUNE 2011 - CONSOLIDATED	< 6 months $	6-12 months $	1-5 years $	TOTAL $
Financial Assets				
Cash and Cash equivalents	110,467	-	-	110,467
Trade and other receivables	5,441,891	-	-	5,441,891
	5,552,358	**-**	**-**	**5,552,358**
Financial Liabilities				
Bank Overdraft	1,348,014	-	-	1,348,014
Interest bearing loans and borrowings	32,119	32,119	42,657	106,895
	4,004,682	**32,119**	**42,657**	**4,079,458**
	1,547,676	**(32,119)**	**(42,657)**	**1,472,900**

The overdraft amount was $1,348,014 at 30 June 2011. This on demand facility remains in place with the support of HSBC Bank Australia Ltd. Cancellation can be made by either party giving 30 days’ notice.

a) Maturity Analysis of Financial Assets and Liability based on Contractual Maturities

The risk implied from the values shown in the table above, reflects a balanced view of cash inflows and outflows. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant, equipment and investments in working capital e.g. programs, digital development and trade receivables. These assets are considered in the Group's overall liquidity risk. To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, MCM Entertainment Group Limited has established comprehensive risk reporting covering its business that reflects expectations of management of expected settlement of financial assets and liabilities.

Fair Value

The methods for estimating fair value are outlined in the relevant notes to the financial statements.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Cash Flow Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates and finance leases with fixed interest rates.

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

Significant Accounting Judgments

Capitalised Development Costs

Development costs are only capitalised by the Group when it can be demonstrated that the technical feasibility of completing the intangible asset is valid so that the asset will be available for use or sale within twelve (12) months. Development costs primarily relate to expenditure on new software and new infrastructure built to operate proprietary web sites and related internet production. Labour contracted to specifically work on development projects are capitalised, whereas the cost related to full time staff are on the main expensed in accordance with the policy of expenditure related to salaries and wages.

Taxation

Deferred tax assets, including those arising from unrecouped tax losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits in the near future.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future sales, operating costs, capital expenditure, dividends and other capital management transactions. Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

Significant Accounting Estimates and Assumptions

Impairment of Goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill is allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill including a sensitivity analysis are discussed in note 15.

Share-Based Payment Transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a binomial model, with the assumptions detailed in note 24. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Make Good Provision

A provision has been made for the present value of anticipated costs of returning the leased premises back to the condition stipulated in the respective tenancy leases. The provision includes future cost estimates associated with returning the premises to the condition of the tenancy before the Group entity occupied the respective tenancies. The calculation of this provision requires assumptions such as demolition and asset removal. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the balance sheet by adjusting both the expense or asset (if applicable) and provision. The related carrying amounts are disclosed in note 17.

Estimation of Useful Lives of Assets

The estimation of the useful lives of assets has been based on historical experience (for office and studio equipment) and lease terms (for leased equipment). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

a) Long Service Leave Provision

As discussed in note 17, the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

b) Allowance for Impairment

Where receivables are outstanding beyond the normal trading terms, the likelihood of the recovery of these receivables is assessed by management. This assessment is based on supportable past collection history and historical write-offs of bad debts.

5. Operating Segments

Identification of Reportable Segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the manner of the services provided. Discrete financial information about each of these operating businesses is reported to the executive management team on a monthly basis.

Types of Products and Services

Media

The media business is a media content production and distribution organization supplying radio, television, online, cinema and 3G mobile with advertiser funded entertainment content.

Web Development and Design

The web development and design business is a full service digital agency specialising in digital strategy, design and development. The business creates intelligent and creative digital solutions for nationally recognised brands from the media, entertainment, leisure, hospitality and automotive industry.

Software Development

The software development business' core function is to develop, sell and license software and technical solution services to both local and international clients. The business has developed the real time internet traffic and behavioural measurement software 'Camify®' and online video platform (OVP) 'movideo®'.

Accounting Policies and Inter-Segment Transactions

The accounting policies used by the Group in reporting segments internally are detailed below:

Inter-Entity Sales

Inter-entity sales are recognised based on an internally set transfer price. The price is set per transaction and aims to reflect what the business operation could achieve if they sold their output and services to external parties at arm's length.

Corporate Charges

Corporate charges comprise non-segmental expenses such as head office expenses. Corporate charges are allocated to each business segment on a proportionate basis linked to segment revenue and number of employees as to determine a segmental result.

Segment Loans Payable & Receivable

Intercompany loans are recognised at the consideration received.

Income Tax Expense

Income tax expense is calculated based on the segment operating net profit using a notional charge of 30% (2010: 30%) and then adjusted for taxable or deductible temporary differences.

It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

	Media	Web Development & Design	Software Development	Unallocated	Total
	$	$	$	$	$
Year Ended 30 June 2011					
Revenue					
Sales to external customers	19,804,968	2,563,274	569,036	-	22,937,278
Inter-segment sales	3,570	171,406	504,866	-	679,842
Total segment revenue	**19,808,538**	**2,734,680**	**1,073,902**	**-**	**23,617,120**
Segment net operating profit/(loss) after tax	**728,243**	**(348,741)**	**(1,960,585)**	**(550,263)**	**(2,131,346)**
Interest revenue	3,382	499	34	638	4,553
Interest expense	(63,911)	(77)	(2)	(17,433)	(81,423)
Depreciation and amortisation	(356,533)	(63,616)	(287,795)	(59,690)	(767,634)
Other non-cash expenses	-	-	-	(16,023)	(16,023)
Income tax (expense)/benefit	(357,039)	175,454	697,893	(447,324)	68,984
Segment assets	**12,196,532**	**2,018,573**	**1,336,209**	**4,942,941**	**20,494,255**
Segment liabilities	**8,301,987**	**833,216**	**5,005,563**	**1,271,908**	**15,412,674**

	Media	Web Development & Design	Software Development	Unallocated	Total
	$	$	$	$	$
Year Ended 30 June 2010					
Revenue					
Sales to external customers	20,301,025	2,837,955	135,170	-	23,274,150
Inter-segment sales	32,285	412,046	128,914	-	573,245
Total segment revenue	**20,333,310**	**3,250,001**	**264,084**	**-**	**23,847,395**
Segment net operating profit/(loss) after tax	**1,787,278**	**83,806**	**(1,151,941)**	**(64,213)**	**654,930**
Interest revenue	3,476	299	47	95	3,917
Interest expense	(26,590)	-	(13)	(6,692)	(33,295)
Depreciation and amortisation	(382,576)	(60,784)	(226,953)	(38,366)	(708,679)
Write off of assets	(11,866)	-	-	-	(11,866)
Other non-cash expenses	-	-	-	(14,587)	(14,587)
Income tax (expense)/benefit	(844,101)	(45,327)	480,880	10,211	(398,337)
Discontinued operations after income tax					-
Segment assets	**9,178,806**	**1,880,529**	**660,001**	**5,177,028**	**16,896,364**
Segment liabilities	**6,408,908**	**925,431**	**2,398,095**	**763,939**	**10,496,373**

a) Segment Revenue Reconciliation to the Statement of Comprehensive Income

	CONSOLIDATED	
	30 Jun 2011	30 Jun 2010
Consolidated revenue per the statement of comprehensive income	22,937,278	23,274,150
Inter-segment sales	679,842	573,245
Total segment revenue	**23,617,120**	**23,847,395**

b) Segment Net Operating Profit/(Loss) after Tax Reconciliation to the Statement of Comprehensive Income

	CONSOLIDATED	
	30 Jun 2011	30 Jun 2010
Segment net operating profit after tax	(1,581,083)	719,143
Unallocated segment expenses	(550,263)	(64,213)
Total profit/(loss) after tax per the statement of comprehensive income	**(2,131,346)**	**654,930**

c) Segment Assets Reconciliation to the Statement of Financial Position

	CONSOLIDATED	
	30 Jun 2011	30 Jun 2010
Segment operating assets	20,494,255	16,896,364
Intersegment eliminations	(11,227,273)	(8,012,521)
Deferred tax assets	664,897	595,545
Total assets per the statement of financial position	**9,931,879**	**9,479,388**

Intersegment eliminations relate to loan accounts and accounts receivable balances between the members of the group.

d) Segment Liabilities Reconciliation to the Statement of Financial Position

	CONSOLIDATED	
	30 Jun 2011	30 Jun 2010
Segment operating liabilities	15,412,674	10,496,373
Intersegment eliminations	(9,145,079)	(7,051,743)
Provisions	482,385	734,706
Total liabilities per the statement of financial position	**6,749,980**	**4,179,336**

Intersegment eliminations relate to loan accounts and accounts payable balances between the members of the group.

6. Revenue & Expenses

	CONSOLIDATED	
	30 June 2011	30 June 2010
Revenue		
Sales revenue - rendering of services	22,937,278	23,274,150
Total revenue	**22,937,278**	**23,274,150**
Depreciation and amortisation expense		
Depreciation expense of tangible assets	(479,365)	(388,292)
Amortisation expense of intangible assets	(288,269)	(320,387)
Total depreciation and amortisation expense	**(767,634)**	**(708,679)**
Interest & finance expenses		
Interest expense	(81,423)	(33,295)
Other financial expenses	(53,145)	(46,645)
Interest revenue	4,553	3,917
Total interest & finance expenses	**(130,015)**	**(76,023)**
Lease payments and other expenses included in income statement		
Minimum lease payments - operating leases charged directly to administration expense in the income statement	(654,013)	(695,508)
Total lease payments	**(654,013)**	**(695,508)**
Employee benefits expense		
Wages & salaries	(9,230,876)	(8,313,966)
Superannuation expense	(719,169)	(605,945)
Share-based payments expense	(16,023)	(14,587)
Other employee benefits expense	(1,092,255)	(973,728)
Total employee benefits expense	**(11,058,323)**	**(9,908,226)**
Research and development expenses		
Research and development costs charged directly to administration expense in the income statement	(9,219)	(23,866)
Total research and development expense	**(9,219)**	**(23,866)**

7. Income Tax

	CONSOLIDATED	
	30 June 2011	30 June 2010
	$	$
Current income tax		
Current income tax charge	-	356,817
Deferred tax income		
Relating to origination and reversal of temporary differences	(68,984)	41,520
Income tax (benefit)/expense reported in statement of comprehensive income	**(68,984)**	**398,337**

A reconciliation between tax expense applicable to accounting profit at the Group's effective income tax rate and income tax expense recognised in the statement of comprehensive income is as follows:

	30 June 2011 $	30 June 2010 $
Accounting profit/(loss) before income tax	**(2,200,330)**	**1,053,267**
At the Group's statutory income tax rate of 30%	(660,099)	315,980
Non-deductible expenditure	167,550	86,587
Expenditure deductible for tax purposes only	-	(938)
Non-recognition of deferred tax asset on losses	447,095	-
Non-assessable income	(23,530)	-
Other	-	(3,292)
Aggregate income tax expense/(benefit)	**(68,984)**	**398,337**
Net deferred tax assets		
Allowance for doubtful debts	3,630	12,337
Prepayments	(3,443)	(1,035)
Property, plant and equipment	114,540	117,555
Brandnames	(17,918)	(33,584)
Accrued expenses	52,034	59,795
Annual leave	152,895	112,047
Provision for long service leave	115,473	104,530
Capital raising costs	46,536	116,836
Other	200,784	107,066
Total net deferred tax assets	**664,531**	**595,547**

The Group has unused tax losses arising in Australia of $1,490,317 (2010 tax losses carried forward: $nil).

Tax Consolidation

Members of the Tax Consolidated Group and the Tax Sharing Arrangement

MCM Entertainment Group Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2003. MCM Entertainment Group Limited is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

Tax Effect Accounting by Members of the Tax Consolidated Group

a) Measurement Method Adopted under UIG 1052 Tax Consolidation Accounting

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principals in AASB 112 Income Taxes. The nature of the tax funding agreement is discussed further below.

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

b) Nature of the Tax Funding Agreement

Members of the tax consolidated group have entered into a tax funding agreement. Under the funding agreement the funding of tax within the group is based on accounting profit. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable (payable) which is at call. To the extent that there is a difference between the amount charged under the tax funding agreement and the allocation under UIG 1052, the head entity accounts for these as equity transactions with the subsidiaries.

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

8. Dividends Paid and Proposed

There were no dividends paid or proposed in the 2011 financial year.

	CONSOLIDATED 30 June 2011 $	30 June 2010 $
Franking credit balance		
The amount of franking credits available for the subsequent financial year or period, as applicable, are:		
- franking account balance at the end of the financial period at 30%	454,084	371,042
- franking credits that will arise from the payment of income tax	273,777	83,042
	727,861	**454,084**

9. Earnings per Share (EPS)

The following reflects the income and share data used to calculate the Group's basic and diluted earnings per share:

Earnings Used in Calculating Earnings per Share

	CONSOLIDATED 30 June 2011 $	30 June 2010 $
Earnings after tax	(2,131,346)	654,930

Weighted Average Number of Shares

	CONSOLIDATED 30 June 2011 No. of shares	30 June 2010 No. of shares
Basic weighted number of ordinary shares	71,846,685	71,846,685
Diluted weighted number of ordinary shares	n/a	n/a

Earnings per Share

	CONSOLIDATED 30 June 2011 cents	30 June 2010 cents
Basic eps	(2.97)	0.91
Diluted eps^	n/a	n/a

^ The diluted earnings per share is not applicable as the share options on issue are anti-dilutive.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

10. Current Assets – Cash and Cash Equivalents

	CONSOLIDATED	
	30 June 2011 $	30 June 2010 $
Cash at bank and in hand	110,467	649,166
Bank overdraft	(1,348,014)	-
Total cash and cash equivalents	**(1,237,547)**	**649,166**
Reconciliation of net profit after tax to net cash flows from operations		
Total comprehensive income for the period	**(2,131,346)**	**654,930**
Adjustments for non-cash income and expense		
Depreciation of plant and equipment	479,365	388,292
Amortisation of intangibles	288,269	320,387
Write dow n of asset	-	11,866
Makegood expense	25,000	25,000
Share based payments expense	16,023	14,587
Decrease / (increase) in assets and liabilities		
Trade and other receivables	(998,010)	77,089
Other assets	(83,931)	(32,374)
Trade and other payables	44,066	208,857
Deferred revenue	1,487,079	(366,590)
Income tax payable	(273,777)	273,777
Deferred taxes	(68,986)	41,520
Provisions (employee benefits)	46,455	252,969
Deferred Consideration	(50,000)	(75,000)
Net cash from operating activities	**(1,219,793)**	**1,795,310**

11. Current Assets – Trade and Other Receivables

	CONSOLIDATED 30 June 2011 $	30 June 2010 $
Trade receivables, third parties	5,348,513	4,319,650
Allowance for impairment loss	(12,100)	(41,125)
Total trade receivables	**5,336,413**	**4,278,525**
Other receivables, related parties	10,467	8,067
Accrued revenue	95,011	157,289
Total other receivables	**105,478**	**165,356**
Total trade and other receivables	**5,441,891**	**4,443,881**

Trade Receivables and Allowance for Impairment Loss

Trade receivables are non-interest bearing and are generally on 30-60 day terms.

An allowance for impairment loss is recognised when there is objective evidence that a trade receivable is impaired. Allowance for impairment loss, which decreased by $28,516 during the year (2010: increased by $825) has been recognised by the Group in the 'administration expenses' line item for the current period for specific debtors, as described in note 2(g), for which such evidence exists. During the year, bad debts of $509 were written off.

Movements in allowance for impairment loss were as follows:

	CONSOLIDATED 30 June 2011 $	30 June 2010 $
Allowance for impairment loss opening balance	(41,125)	(40,300)
Amounts written off (included in Administration Expenses)	509	1,216
Decrease/(increase) in allowance	28,516	(2,041)
Allowance for impairment loss closing balance	**(12,100)**	**(41,125)**

An ageing analysis of trade receivables is provided below:

	0-30 days NPDNI^	31-60 days NPDNI^	61-90 days PDNI*	+91 days PDNI*	+91 days CI#	Total
2011	**$**	**$**	**$**	**$**	**$**	**$**
Consolidated	2,977,402	2,312,829	33,508	12,674	12,100	5,348,513
2010						
Consolidated	2,271,382	1,870,676	128,489	7,978	41,125	4,319,650

^ Not past due not impaired
* Past due not impaired
# Considered impaired

Related Party Receivables

For terms and conditions of related party receivables refer to note 22.

Fair Value and Credit Risk

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

The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

12. Non-Current Assets – Investment in Subsidiaries

		Percentage of equity interest held by the consolidated entity		Investment	
		30 June 2010	30 June 2009	**30 June 2011**	30 June 2010
Name	**Country of Corporation**			**$**	**$**
MCM Media Pty Ltd	Australia	100%	100%	2	2
Igloo Digital Pty Ltd	Australia	100%	100%	962,005	962,005
movideo Pty Ltd	Australia	100%	100%	100	100
				962,107	962,107

		Percentage of equity interest held by MCM Media Pty ltd		Investment	
Name	**Country of Corporation**	**30 June 2011**	30 June 2010	**30 June 2011**	30 June 2010
mcm entertainment pty ltd	Australia	100%	100%	2	2
				2	2

		Percentage of equity interest held by Movideo Pty ltd		Investment	
Name	**Country of Corporation**	**30 June 2011**	30 June 2010	**30 June 2011**	30 June 2010
Movideo Digital Netw orking Technology Services (Beijing) Ltd	China	100%	n/a	102,672	-
				102,672	-

13. Non-Current Assets – Property, Plant & Equipment

	CONSOLIDATED		
	Furniture, Fixtures & Fittings	Office, Studio Equipment	Total
	$	$	$
Year ended 30 June 2011			
At 1 July 2010 net of accumulated depreciation	835,444	639,742	1,475,186
Additions	-	352,433	352,433
Additions under finance lease	-	-	-
Assets disposed of	-	-	-
Depreciation for the period	(138,904)	(340,461)	(479,365)
At 30 June 2011 net of accumulated depreciation	**696,540**	**651,714**	**1,348,254**
At 30 June 2011			
Cost	1,170,234	3,469,927	4,640,161
Accumulated depreciation	(473,694)	(2,818,213)	(3,291,907)
Net carrying amount	**696,540**	**651,714**	**1,348,254**
Year ended 30 June 2010	**-**	**-**	**-**
At 1 July 2009, net of accumulated depreciation	967,459	527,189	1,494,648
Additions	6,123	214,663	220,786
Additions under finance lease	-	159,910	159,910
Assets w ritten off	-	(11,866)	(11,866)
Depreciation for the period	(138,138)	(250,154)	(388,292)
At 30 June 2010 net of accumulated depreciation	**835,444**	**639,742**	**1,475,186**
At 30 June 2010 net of accumulated depreciation			
Cost	1,170,234	3,566,249	4,736,483
Accumulated depreciation	(334,790)	(2,926,507)	(3,261,297)
Net carrying amount	**835,444**	**639,742**	**1,475,186**

The net carrying value of plant and equipment held under finance lease contracts at 30 June 2011 is $88,771 (June 2010 is $142,197). Leased assets are pledged as security for the related finance leases.

14. Non-Current Assets – Intangible Assets and Goodwill

	CONSOLIDATED			
	Goodwill	Brand names - trade marks	Capitalised website costs/ software	Total
	$	$	$	$
Year ended 30 June 2011				
At 1 July 2010 net of accumulated amortisation and impairment	1,510,835	111,945	293,016	1,915,796
Additions	-	-	223,894	223,894
Amortisation for the period	-	(52,220)	(236,049)	(288,269)
At 30 June 2011 net of accumulated amortisation and impairment	**1,510,835**	**59,725**	**280,861**	**1,851,421**
At 30 June 2011				
Cost	1,510,835	350,000	871,013	2,731,848
Accumulated amortisation	-	(290,275)	(590,152)	(880,427)
Net carrying amount	**1,510,835**	**59,725**	**280,861**	**1,851,421**
Year ended 30 June 2010				
At 1 July 2009, net of accumulated amortisation and impairment	1,510,835	164,165	536,916	2,211,916
Additions in the period	-	-	9,127	9,127
Additions under finance lease	-	-	15,140	15,140
Amortisation for the period	-	(52,220)	(268,167)	(320,387)
At 30 June 2010, net of accumulated amortisation and impairment	**1,510,835**	**111,945**	**293,016**	**1,915,796**
At 30 June 2010				
Cost	1,510,835	350,000	1,603,678	3,464,513
Accumulated amortisation	-	(238,055)	(1,310,662)	(1,548,717)
Net carrying amount	**1,510,835**	**111,945**	**293,016**	**1,915,796**

The net carrying value of software held under finance lease contracts at 30 June 2011 is $5,714 (June 2010 is $11,770). Leased assets are pledged as security for the related finance leases.

Goodwill is subject to annual impairment testing (see note 15).

15. Impairment Testing of Goodwill and Intangibles

Goodwill acquired through business combinations has been allocated to two individual cash generating units:

- MCM Media cash generating unit; and
- Igloo Digital cash generating unit.

Furthermore, the group has a third cash generating unit, movideo which paid for an international patent to protect the Camify software.

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

The impairment testing undertaken includes consideration of the carrying value of goodwill, intangibles and plant and equipment in the relevant cash generating units.

MCM Media Cash Generating Unit

The recoverable amount of the cash generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period and a terminal value.

Discount rates – discount rates reflect current market assessments and management's estimate of the time value of money and the risks. This is the benchmark used by management to assess operating performances and to evaluate future investment proposals. The pre-tax discount rate used is 15.0% (2010: 15.0%).

Market share assumptions – these assumptions are important because, as well as using industry data for growth rates, management assess how the business' relative position to its competitors might change over the budget period. Management expects the Group's share of the market to be stable over the budget period.

Growth rate estimates – the growth in the radio, internet and mobile mediums is determined by reference to the long term historical growth rate and nominal GDP estimates published by leading long term economic forecasters. The average growth rate used is 5.0% (2010: 1.5%).

Cost inflation – is determined by reference to CPI estimates published by leading long-term forecasters and the Reserve Bank of Australia's target benchmark. The current inflation cost assumption used is 3.5% (2010: 2.0%).

In relation to the assessment of the value in use of the MCM Media unit, management believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

Igloo Digital Cash Generating Unit

The recoverable amount of the cash generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period and a termination value.

Discount rates – discount rates reflect current market assessments and management's estimate of the time value of money and the risks. This is the benchmark used by management to assess operating performances and to evaluate future investment proposals. The pre-tax discount rate used is 15% (2010: 15%).

Market share assumptions – these assumptions are important because, as well as using industry data for growth rates, management assess how the business' relative position to its competitors might change over the budget period. Management expects the Group's share of the market to be stable over the budget period.

Growth rate estimates – the growth in the digital publishing market is based on management's long term strategy for the unit. The average growth rate used is 7.5% (2010: 5.0%).

Cost inflation – is determined by reference to CPI estimates published by leading long-term forecasters and the Reserve Bank of Australia's target benchmark. The current inflation cost assumption used is 3.0% (2010: 3.0%).

In relation to the assessment of the value in use of the Igloo Digital unit, management believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

However if a growth rate of 2.65% was achieved and no other assumptions changed, then goodwill may be impaired.

movideo Cash Generating Unit

The recoverable amount of the cash generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period and terminal value.

Discount rates – discount rates reflect current market assessments and management's estimate of the time value of money and the risks. This is the benchmark used by management to assess operating performances and to evaluate future investment proposals. The pre-tax discount rate used is 20% (2010: 15%).

Market share assumptions – Management expects the Group's share of the market to increase significantly over the budget period contingent upon achieving targeted results outlined in the movideo business plan.

Growth rate estimates – the growth is based on management's long terms strategy for the unit. The average growth rate used is 2.5% (2010: 3.50%).

Cost inflation – is determined by reference to CPI estimates published by leading long-term forecasters and the Reserve Bank of Australia's target benchmark. The current inflation cost assumption used is 2.0% (2010: 2.5%).

In respect of the movideo cash generating unit, there are no reasonably possible changes in key assumptions that could cause the carrying value of the unit to exceed its recoverable amount. However should the objectives developed in the business plan fail to be achieved this may determinately impact the recoverable amount of the unit.

The carrying amounts of goodwill and patents are depicted below:

	MCM MEDIA UNIT		IGLOO DIGITAL UNIT		MOVIDEO UNIT	
	30 June 2011 $	30 June 2010 $	**30 June 2011 $**	30 June 2010 $	**30 June 2011 $**	30 June 2010 $
Carrying amount of goodwill	553,946	553,946	956,933	956,933	-	-
Carrying amount of patents	-	-	-	-	107,941	56,605

16. Current Liabilities – Trade and Other Payables

	CONSOLIDATED	
	30 June 2011 $	30 June 2010 $
Trade payables, third parties	515,192	595,691
Total trade payables	**515,192**	**595,691**
Accrued expenses, third parties	1,599,712	1,611,239
Accrued annual leave	509,645	373,487
Other payables, related parties	-	68
Total other payables	**2,109,357**	**1,984,794**
Total trade and other payables	**2,624,549**	**2,580,485**

Terms and Conditions

i Trade payables are non-interest bearing and are normally settled on 30 - 60 day terms.

ii Accrued expenses are non-interest bearing and have an average term of 1 – 6 months.

iii Details of the terms and conditions of related party payables are set out in note 22.

Interest Rate, Foreign Exchange and Liquidity Risk

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in note 3.

17. Provisions

	CONSOLIDATED	
	30 June 2011	30 June 2010
	$	$
Current		
Long service leave	305,720	178,768
Deferred consideration - igloo design Pty Ltd acquisition	-	50,000
Provision for income tax	-	273,775
Total current	**305,720**	**502,543**
Non-current		
Long service leave	89,165	169,663
Provision for makegood	87,500	62,500
Total non-current	**176,665**	**232,163**
Total provisions	**482,385**	**734,706**

Movements in Provisions

Movements in each class of provision during the financial year are set out below:

	Provision for Long Service Leave	Provision for Deferred Consideration	Provision for Income Tax	Provision for Makegood	Total
	$	$	$	$	$
At 1 July 2010	**348,431**	**50,000**	**273,775**	**62,500**	**734,706**
Increase in provision	108,440	-	-	25,000	133,440
Utilised	(61,986)	(50,000)	(273,775)	-	(385,761)
As at 30 June 2011	**394,885**	**-**	**-**	**87,500**	**482,385**
Current - 2011	305,720	-	-	-	305,720
Non-Current - 2011	89,165	-	-	87,500	176,665
As at 30 June 2011	**394,885**	**-**	**-**	**87,500**	**482,385**
Current - 2010	178,768	50,000	273,775	-	502,543
Non-Current - 2010	169,663	-	-	62,500	232,163
As at 30 June 2010	**348,431**	**50,000**	**273,775**	**62,500**	**734,706**

The make good provision increased by $25,000 during the year in respect of the Group's obligation to Coriannau Pty Ltd for the leased premises at Level 4, 21 – 31 Goodwood Street, Richmond, Victoria. The balance at reporting date is $87,500. Because of the long-term nature of the liability, there is uncertainty as to the costs that will ultimately be incurred.

18. Interest Bearing Liabilities and Borrowings

	CONSOLIDATED	
	30 June 2011 $	30 June 2010 $
Current		
Bank overdraft	1,348,014	-
Finance lease liability	64,238	56,192
Interest bearing liabilities (current)	**1,412,252**	**56,192**
Non-current		
Finance lease liability	42,657	106,895
Interest bearing liabilities (non-current)	**42,657**	**106,895**
Total interest bearing liabilities	**1,454,909**	**163,087**

Finance leased assets are pledged as security in relation to the finance lease arrangements.

The bank overdraft is secured by a fixed charge over the assets and business undertakings of the Group.

Financing Facilities Available

At reporting date, the following financing facilities had been negotiated and were available:

	CONSOLIDATED	
	30 June 2011 $	30 June **2010** $
Total facilities		
Bank overdraft	3,000,000	2,525,649
Lease facilities	106,895	163,087
	3,106,895	**2,688,736**
Facilities used at balance date		
Bank overdraft	1,348,014	-
Lease facilities	106,895	163,087
	1,454,909	**163,087**
Facilities unused at reporting date		
Bank overdraft	1,651,986	2,525,649
Lease facilities	-	-
	1,651,986	**2,525,649**

Interest Rate, Foreign Exchange and Liquidity Risk

Details regarding interest rate, foreign exchange and liquidity risk is disclosed in note 3.

19. Economic Dependency

The Group's ongoing operations are dependent on the availability of adequate funding from financiers.

20. Contributed Equity

Ordinary Shares

	CONSOLIDATED	
	30 June 2011 $	30 June 2010 $
Ordinary shares		
Ordinary shares at start of period	4,940,113	4,940,113
Balance at end of period	**4,940,113**	**4,940,113**

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	CONSOLIDATED	
Number of Shares	**30 June 2011**	30 June 2010
Opening balance	71,846,685	71,846,685
Closing balance	**71,846,685**	**71,846,685**

Capital Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management did not pay a dividend during the 2011 financial year.

Management monitors capital through the gearing ratio (net debt/total capital). The target for the consolidated group ratio for this financial year is between 10% and 30%. The gearing ratios based on continuing operations at 30 June 2011 and 30 June 2010 were as follows:

	CONSOLIDATED	
	30 June 2011	30 June 2010
	$	$
Total borrowings	1,454,909	163,087
Less cash and cash equivalents	(110,467)	(649,166)
Add surplus cash and cash equivalents	-	486,079
Net debt	1,344,442	-
Total equity	3,168,985	5,300,052
Total capital	**4,513,427**	**5,300,052**
Gearing Ratio	**30%**	**-**

21. Retained Earnings/(Accumulated Losses) and Reserves

Movements in Retained Earnings/(Accumulated Losses) as follows:

	CONSOLIDATED	
	30 June 2011	30 June 2010
	$	$
Retained earnings/(accumulated losses)		
Retained earnings/(Accumulated losses) at the beginning of the period	253,839	(401,091)
Profit/(loss) attributable to the members of the group	(2,131,346)	654,930
Retained earnings/(accumulated losses) at end of the period	**(1,877,507)**	**253,839**

Movements in the Share Based Payments Reserve as Follows:

	CONSOLIDATED	
	30 June 2011	30 June 2010
	$	$
Share based payments reserve		
Employee share option plan at start of period	106,100	91,513
ESOP attributable to members of the group	16,023	14,587
Share based payments reserve at end of period	**122,123**	**106,100**

Nature and Purpose of Reserves

Share Based Payments Reserve

The employee equity benefits reserve is used to record the value of share based payments provided to employees, including KMP, as part of their remuneration. Refer to note 24 for further details of these plans.

22. Related Party Disclosure

Subsidiaries

The consolidated financial statements include the financial statements of MCM Entertainment Group Limited and the subsidiaries listed below:

- MCM Media Pty Ltd;
- MCM Entertainment Pty Ltd;
- Igloo Digital Pty Ltd;
- movideo Pty Ltd; and
- Movideo Digital Networking Technology Services (Beijing) Ltd

Ultimate Parent

MCM Entertainment Group Limited is the ultimate Australian parent entity and the ultimate parent of the Group.

Key Management Personnel

Details relating to KMP, including remuneration paid, are included in note 23 as well as in the remuneration report within the Director's report.

Transactions with Related Parties

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year except those transactions relating to Directors and Non-Executive Director remuneration (see Directors' Report).

CONSOLIDATED		Sales to related parties $	Purchases from related parties $	Other transactions $
Liberation Music Pty Ltd - Copyright Fees (online streaming of music)	2010	-	5,573	-
	2011	-	7,099	-
Mushroom Group Pty Ltd - Cost Recoveries	2010	652	-	-
	2011	-	-	-
Australian Tour Merchandising Pty Ltd - advertising sales	2010	-	-	-
	2011	6,000	-	-
KOALA Foundation - Entertainment, Sponsorship, Cost Recoveries	2010	-	10,000	29,352
	2011	-	10,000	36,493

The following table provides the total outstanding balances on receivables and payables at the relevant financial year end:

CONSOLIDATED			Payables to related parties $	Receivables from related parties $
Transactions with director related entities				
a	Liberation Music - Copyright Fees (online streaming of music)	2010	1,248	-
		2011	1,071	-
b	KOALA Foundation - Cost Recoveries	2010	-	8,067
		2011	-	3,618

23. Key Management Personnel

Compensation for Key Management Personnel

	CONSOLIDATED 30 June 2011 $	30 June 2010 $
Short-term employee benefits	1,688,074	1,880,995
Post-employment benefits	81,969	79,609
Other-long term benefits	31,045	30,928
Share based payments	7,440	12,013
Total compensation	**1,808,528**	**2,003,545**

Option Holdings of Key Management Personnel (Consolidated)

	Balance at Beginning of Period 01 July 2010	Net Change Other #	Balance at End of Period 30 June 2011	Vested at 30 June 2011		
				Total	Exercisable	Not Exercisable
Directors						
J. Playoust	-	-	-	-	-	-
G. Smith	-	-	-	-	-	-
V. Donato	-	-	-	-	-	-
S. Burridge*	-	-	-	-	-	-
Executive						

	Balance at Beginning of Period 01 July 2010	Net Change Other #	Balance at End of Period 30 June 2011	Vested at 30 June 2011		
				Total	Exercisable	Not Exercisable
Directors						
M. Burgess	200,000	-	200,000	200,000	200,000	-
A. McGinn	300,000	-	300,000	300,000	300,000	-
Executives						
S. Joyce#	200,000	-	200,000	200,000	200,000	-
C. Moore	50,000	-	50,000	50,000	50,000	-
A. Englisch**	-	-	-	-	-	
TOTAL	**750,000**	**-**	**750,000**	**750,000**	**750,000**	**-**

*resigned 27 January 2011

** resigned 11 October 2010
# appointed Director 01 July 2011

Shareholdings of Key Management Personnel (Consolidated)

There have not been any preference shares issued by the Group to KMP or Non-Executive Directors.

Shares held in MCM Entertainment Group Limited (number) by KMP and Non-Executive Directors are:

	Balance at 01 July 2010	**Granted as Remuneration**	**On Exercise of Options**	**Net Change Other**	**Balance 30 June 2011**
	Ord	**Ord**	**Ord**	**Ord**	**Ord**
Directors					
J. Playoust*	4,563,355	-	-	132,660	4,696,015
G. Smith	50,000	-	-	-	50,000
V. Donato	-	-	-	-	-
S. Burridge#	218,500	-	-	(156,000)	62,500
Executive Director					
M. Burgess	-	-	-	16,605	16,605
A. McGinn	23,490,010	-	-	83,856	23,573,866
Executives					
S. Joyce^	25,000	-	-	-	25,000
C. Moore	65,000	-	-	-	65,000
A. Englisch^^	1,817,812	-	-	(1,817,812)	-
TOTAL	**30,229,677**	**-**	**-**	**(1,740,691)**	**28,488,986**

* J. Playoust is the Managing Director of and has a minority interest in Australian Enterprise Holdings Pty Ltd (AEH). AEH's shareholding is held in trust by ABN Amro Clearing Sydney Nominees Pty Ltd (Next Custodian Account). AEH owns 4,363,355 MEG shares. Further, J. Playoust controls 332,660 MEG shares ATF J&M Playoust Superannuation Fund.
# including shares held by controlled entities and on trust

^ appointed Director 01 July 2011

^^ resigned 11 October 2010

Loans to Key Management Personnel

Loans were not granted to key management personnel during the year.

During the year, deferred consideration of $25,000 was paid to Andrew Englisch in respect of the acquisition by MCM Entertainment Group Limited of Igloo Design Pty Ltd on 1 September 2008.

24. Share-Based Payment Plans

Recognised Share-Based Payment Expenses

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

	CONSOLIDATED	
	30 June 2011	30 June 2010
	$	$
Expense arising from equity settled share-based payment transactions	16,023	14,587

The Group has two option plans, the Employee Share Option Plan (Option Plan) and the Executive Option and Share Plan (Executive Option and Share Plan).

The share-based payment plans are described below. There have been no cancellations or modifications to the Share Option Plan since being introduced on 19 December 2007.

Types of Share-Based Payment Plans

Employee Share Option Plan

a) General

The MCM Entertainment Group Limited employee share option plan (Option Plan), is the Company's long term incentive scheme for staff of MCM Entertainment and key talent engaged by MCM Entertainment. A total of 1,925,000 Options have been issued under the Option Plan, of which 75,000 were forfeited in the 2009 financial year, 350,000 expired in the 2010 financial year and a further 225,000 expired in the 2011 financial year. The Option Plan provides for Options representing approximately 5% of the Shares on issue to be available for issue.

Under the Option Plan, participants may be granted options over Shares in the Company on the terms and conditions determined by the Board. If the applicable service conditions are satisfied and the Options vest, participants can exercise their Options. Under the Option Plan, the exercise price of the options is set at the listing price of the shares - the price at which the Company's shares were initially listed on the ASX.

b) Eligibility

Under the Option Plan, the Board may offer Options to any persons determined by the Board to be eligible to participate in the Option Plan. The Board, exercising its absolute discretion, will determine the eligibility of persons, their entitlement and the consideration payable for the Options.

c) Options Currently on Issue

Following the exercise of the Options and payment of the exercise price, participants will be granted Shares in the Company.

A summary of the Options currently on issue to participants under the Option Plan is set out below:

Date of Grant	Holder	Vesting date/expiration date	Number of options	Exercise price
10 December 2007	Non Executive Directors	31 December 2009/ 22 November 2012	-	20 cents
10 December 2007	Executive Directors	31 December 2009/ 22 November 2012	300,000	20 cents
10 December 2007	Senior Management	30 June 2009/ 22 November 2012	400,000	20 cents
10 December 2007	Other Management and Key Talent	31 December 2008/ 22 November 2012	575,000	20 cents
Total			**1,275,000**	

d) Option Pricing Model

The fair value of the equity-settled share options granted under the Option Plan is estimated as at the date of grant using a Binomial Model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the models used for the year ended 30 June 2011:

	30 June 2011
Dividend yield (%)	0.00
Expected volatility (%)	40.00
Risk-free interest rate (%)	6.35
Expected life of options (years)	1-2
Option exercise price ($)	0.20
Weighted average share price at measurement date ($)	0.20

e) Lapse of Options

An Option will lapse on the earlier of:

- when the terms and conditions imposed under the Option Plan rules fail to be satisfied or cannot be satisfied;
- a participant's employment ceases with the Company or a Group Company and the Board does not make a determination to vest an Option;
- the Board determining that a participant has acted fraudulently or dishonestly, or is in breach of duty (under contract or otherwise) to any Group Company, and deems an Option to have lapsed;
- a change of control event taking place and the Board does not determine that an Option will vest following that event;
- the time that a participant purports to transfer an Option without the consent of the Board; or
- the time 10 years after the date of grant.

f) Allocation of Shares

Shares will be allocated soon after the exercise of vested Options over Shares and the payment of the exercise price. The Shares may be newly issued or acquired on market.

g) Trading Restrictions

Under the Option Plan, participants are not permitted to deal with (which includes being able to transfer) their Options without the consent of the Board, other than by force of law in the event of bankruptcy or their death, or to exercise their Options, as provided for under the Option Plan rules.

Subject to any applicable escrow, there are no dealing restrictions applying to Shares which are allocated as a result of Options that are exercised after the Shares are listed on ASX. However, participants will need to comply with the Company's securities trading policy and relevant insider trading provisions of the Corporations Act.

h) Summary of Movements in Options Granted under the Employee Share Option Plan during the Year

The following table illustrates the number, and movements in, share options issued during the year:

Outstanding at the beginning of the year	1,500,000
Granted during the year	Nil
Forfeited during the year	Nil
Exercised during the year	Nil
Expired during the year	225,000
Outstanding at the end of the year	1,275,000
Exercisable at the end of the year	1,275,000

On July 22, 2011 a further 50,000 options lapsed and were removed from the company's share register.

i) Range of Exercise Price

The exercise price for options outstanding at the end of the year was $0.20.

Executive Option and Share Plan

a) General

The MCM Entertainment Group Limited senior Executive Option and Share Plan is the Company's long term incentive scheme for Directors and Executives. As at 30 June 2011 employees are eligible for a total of 3,230,460 options under the Executive Option and Share Plan.

Under the Executive Option and Share Plan, participants may be granted options over Shares in the Company on the terms and conditions determined by the Board. If the applicable service conditions are satisfied and the Options vest, participants can exercise their Options. Under the Executive Option and Share Plan, the exercise price of the options is set at the listing price of the shares - the price at which the Company's shares were initially listed on the ASX.

b) Eligibility

Under the Executive Option and Share Plan, the Board may offer Options to any persons determined by the Board to be eligible to participate in the Executive Option and Share Plan. The Board, exercising its absolute discretion, will determine the eligibility of persons, their entitlement and the consideration payable for the Options.

c) Executives Currently Eligible for Options

Following the exercise of the Options and payment of the exercise price, participants will be granted Shares in the Company.

A summary of the Options to which participants are eligible under the Executive Option and Share Plan is set out below:

Commencement Date	Holder	Vesting date/expiration date	Number of options	Exercise price
01 January 2011	Senior Executives	01 January 2014/ 01 January 2016	1,500,000	20 cents
01 January 2011	Executives	01 January 2014/ 01 January 2016	1,730,460	20 cents
Total			**3,230,460**	

These options will be granted to the participants on the formal establishment of the Executive Option and Share Plan. This plan is expected to be formalised by September 2011.

d) Option Pricing Model

The fair value of the equity-settled share options granted under the Option Plan is estimated as at the date of grant using a Binomial Model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the models used for the year ended 30 June 2011:

	30 June 2011
Dividend yield (%)	0.00
Expected volatility (%)	40.00
Risk-free interest rate (%)	6
Expected life of options (years)	3-5
Option exercise price ($)	0.20
Weighted average share price at measurement date ($)	0.15

e) Lapse of Options

An Option will lapse on the earlier of:

- when the terms and conditions imposed under the Option Plan rules fail to be satisfied or cannot be satisfied;
- a participant's employment ceases with the Company or a Group Company and the Board does not make a determination to vest an Option;
- the Board determining that a participant has acted fraudulently or dishonestly, or is in breach of duty (under contract or otherwise) to any Group Company, and deems an Option to have lapsed;

- a change of control event taking place and the Board does not determine that an Option will vest following that event;
- the time that a participant purports to transfer an Option without the consent of the Board; or
- the time 7 years after the date of grant.

f) Allocation of Shares

Shares will be allocated soon after the exercise of vested Options over Shares and the payment of the exercise price. The Shares may be newly issued or acquired on market.

g) Trading Restrictions

Under the Executive Option and Share Plan, participants are not permitted to deal with (which includes being able to transfer) their Options without the consent of the Board, other than by force of law in the event of bankruptcy or their death, or to exercise their Options, as provided for under the Executive Option and Share Plan rules.

Subject to any applicable escrow, there are no dealing restrictions applying to Shares which are allocated as a result of Options that are exercised after the Shares are listed on ASX. However, participants will need to comply with the Company's securities trading policy and relevant insider trading provisions of the Corporations Act.

h) Summary of Movements in Options Granted under the Executive and Share Option Plan during the Year

The following table illustrates the number, and movements in, share options issued during the year:

Granted during the year	Nil
Forfeited during the year	Nil
Exercised during the year	Nil
Expired during the year	Nil
Outstanding at the end of the year	Nil
Exercisable at the end of the year	Nil

i) Range of Exercise Price

The exercise price for options outstanding at the end of the year was $0.20.

25. Commitments and Contingencies

Leasing Commitments

The Group has entered into commercial leases on certain buildings in Melbourne and Sydney and minimal office equipment. These leases have an average life of between 1 and 8 years. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	CONSOLIDATED	
	30 June 2011 $	30 June 2010 $
Minimum lease payments		
Less than one year	493,416	674,135
Later than one year and no later than five years	1,444,083	1,678,532
More than five years	-	214,627
Total minimum lease commitments	**1,937,499**	**2,567,294**
Total operating lease commitments	**1,937,499**	**2,567,294**
Operating lease expenses recognised as an expense during the period:	**654,013**	**695,508**

The Sydney office lease is due to expire on 7 September 2011. At the date of reporting management had not committed to a replacement lease.

Finance Lease Commitments

The Group has finance leases for various computer equipment and supporting software.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	CONSOLIDATED	
	Minimum lease payments 30 June 2011 $	**Present value of lease payments 30 June 2010 $**
Minimum lease commitments		
Less than one year	73,561	73,561
Later than one year and not later than five years	44,569	118,130
Total minimum lease commitments	**118,130**	**191,691**
Less amounts representing finance charges	(11,235)	(28,604)
Present value of minimum lease payments	**106,895**	**163,087**
Finance liability		
Current liability	64,238	56,192
Non-current liability	42,657	106,895
Total finance lease liability	**106,895**	**163,087**

The weighted average interest rate impact in the leases for the Group is 7.70% at 30 June 2011 (30 June 2010: 7.70%).

Capital Commitments

The Group has no material capital commitments as at 30 June 2011.

Contingent Liabilities and Contingent Assets

There are no contingent liabilities or contingent assets as at 30 June 2011.

26. Events after the Balance Sheet Date

On 1 July 2011 a heads of agreement was signed with Anthony McGinn that entitles Anthony to 10% free carry in the total equity of Movideo Pty Ltd and controlled entities and a further 5% free carry in the total equity of Movideo Pty Ltd and controlled entities should third party funding be obtained (subject to board approval) to finance Movideo's operations.

There were no other matters or circumstances that have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the company, the results of those operations or the state of the affairs of the company in future financial periods.

27. Parent Entity Information

	PARENT	
	30 June 2011	30 June 2010
	$	$
Current Assets	3,877,414	4,135,640
Total Assets	**5,115,901**	**5,371,245**
Current Liabilities	1,365,452	1,057,347
Total Liabilities	**1,446,305**	**1,232,937**
Ordinary shares	4,927,199	4,940,113
Share based payments reserve	122,123	106,100
Accumulated losses	(907,904)	(843,692)
Total Equity	**4,141,418**	**4,202,521**
Profit/(Loss) of the parent entity	471,822	64,213
Total comprehensive income of the parent entity	**471,822**	**64,213**

Property, plant and equipment commitments

The parent entity and the Group had no contractual obligations to purchase plant and equipment at 30 June 2011.

28. Auditor's Remuneration

The auditor of MCM Entertainment Group Limited is Ernst & Young.

	CONSOLIDATED	
	30 June 2011	30 June 2010
	$	$
Amounts received or due and receivable by Ernst & Young (Australia) for		
An audit or review of the financial report of the entity and any other entity in the consolidated group	105,000	98,000
Other services in relation to the entity and any other entity in the consolidated group	35,825	10,000
	140,825	**108,000**

Directors' Declaration

In accordance with a resolution of the Directors of MCM Entertainment Group Limited, I state that:

1. In the opinion of the Directors:

   a the financial statements, notes and the additional disclosures included in the Directors' report designated as audited, of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

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

      ii complying with Accounting Standards and Corporations Regulations 2001; and

   b the financial statements and notes also comply with International Financial Reporting Statements as disclosed in note 2a; and

   c there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

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

On behalf of the Board

Simon Joyce
Chief Executive Officer

Melbourne, 31 August 2011

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Independent auditor's report to the members of MCM Entertainment Group Limited

Report on the financial report

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

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2a, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

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

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

Independence

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

Opinion

In our opinion:

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

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

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

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2a.

Report on the remuneration report

We have audited the Remuneration Report included in pages 15 to 23 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

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

Ernst & Young

Ernst & Young

K Brown

Kester Brown
Partner

Melbourne
31 August 2011

ASX Additional Information

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 31 July 2011.

Distribution of Equity Securities

Ordinary Share Capital

71,846,685 fully paid ordinary shares are held by 199 individual shareholders. All issued ordinary shares carry one vote per share and carry full rights to dividends declared by the Company.

Options

1,225,000 options are held by 16 individual option holders. Options do not carry a right to vote. During the financial year ended 30 June 2011, no options were converted into shares. The number of Security investors holding less than a marketable parcel of 5,264 securities ($0.0950 on 31 July 2011) is 32.

Distribution of Shareholders

The number of ordinary shareholders, by size of holding, in each class are:

As at 31 July 2011	**Fully Paid Ordinary Shares**	
	Holders	**Units**
1 – 1,000	1	1
1,001 – 5,000	30	143,204
5,001 – 10,000	55	531,958
10,001 – 100,000	84	2,817,799
100,001 and over	29	68,353,723
TOTAL	**199**	**71,846,685**

Substantial Shareholders and Twenty Largest Holders of Quoted Equity Securities

As at 31 July 2011		Fully Paid	
Rank	**Ordinary Shareholders**	**Number**	**Percentage**
1	Anthony McGinn	18,726,449	26.06
2	Michael Gudinski	15,402,121	21.44
3	ABN Amro Clearing <Next Custodian>	12,686,555	17.66
4	ABN Amro Clearing < Custodian>	5,209,644	7.25
5	Milford Cove Pty Ltd	4,485,597	6.24
6	Rosemary McGinn	1,618,643	2.25
7	Annie Mollison	1,269,842	1.77
8	Vanessa Peta Calvert	1,269,841	1.77
9	D K McGinn Super Fund Account	1,052,521	1.46
10	Invia Custodian Pty Limited	785,150	1.09
11	Gary Hardwick	603,333	0.84
12	Don McGinn	553,730	0.77
13	HSBC Custody Nominees (Aust) Ltd	520,541	0.72
14	Anne Terese Mollison	509,641	0.71
15	Vanessa Peta Calvert	509,640	0.71
16	Kenneth Robert Bignill	436,216	0.61
17	Maitland Superannuation Investments	361,820	0.50
18	Julien Playoust and Michelle Playoust	332,660	0.46
19	Cam & Bill Pty Ltd	270,000	0.38
20	Grandoland Pty Ltd	270,000	0.38
	TOTAL	**66,873,944**	**93.08**

Note: Some Directors holdings of MEG shares are held in Trust by authorized third party clearing or settlement accounts.