personal use only

Appendix 4E (rule 4.3A) – Preliminary Final Report for the year ended 31 July 2013

Name of Entity:	Funtastic Limited
ABN:	94 063 886 199
Current Financial Period Ended:	Year ended 31 July 2013
Previous Corresponding Reporting Period:	Year ended 31 July 2012

Results for Announcement to the Market

	$'000	Up/Down	% Movement
Revenue from ordinary activities	166,546	Down	(2.4)%
Net profit from ordinary activities after tax	13,962	Up	33.8%
Net profit from ordinary activities after tax attributable to members of Funtastic Limited	13,962	Up	33.8%

Dividend Information	**Amount per Share (cents)**	**Franked amount per Share (cents)**	**Tax rate for Franking Credit**
Interim Dividend – Current reporting period	0.5c	0.5c	30%
Final Dividend – Current reporting period	0.5c	0.5c	30%
Final Dividend Dates			
Ex-dividend date	14 November 2013		
Record date	20 November 2013		
Payment date	27 November 2013		
Details of any dividend reinvestment plan (DRP) in operation	The DRP will not operate in respect of the final dividend		
The last date for receipt of an election notice for participation in any dividend reinvestment plan	n/a		

Net Tangible Liabilities	**31 July 2013**	**31 July 2012**
Net tangible assets/ (liabilities) per security	0.5 cents	(3.2 cents)

Other information

This report is based on the consolidated financial statements which have been audited by Deloitte Touche Tohmatsu.

For a brief explanation of any figures above please refer to the Announcement on the results for the year ended 31 July 2013 and the attached Annual Financial Report

personal use only

For personal use only

Annual Report

for the financial year ended

31 July 2013

ACN 063 886 199

Message to Shareholders

Introduction

On behalf of the Board of Directors of Funtastic Limited we present to you our 2013 Annual Report.

The Period in Review

During the twelve months ended 31 July 2013 management and the Board have continued to implement their strategy of growth through the development and ownership of our own brands and intellectual property as Funtastic's core capability has evolved from being a distributor to a global manufacturer. This has seen strong growth in the revenue and profitability of our Funtastic Brands division, both at home and overseas and culminated in the recently announced acquisition of the Chill Factor brand.

The twelve months ended 31 July 2013 have been more challenging than we had expected this time last year. The retail environment in Australia has remained subdued, particularly with discretionary spend in the mass merchant category. Consequently, our domestic business has not performed as well as anticipated.

Whilst the results for the year fell short of our initial expectations, we are nevertheless pleased to be reporting growth on last year. The Group's reported result under IFRS was a profit after tax of $14.0m. The Group's Earnings before Interest, Depreciation and Amortisation expenses (EBITDA) for the year is a profit of $24.0m, compared with a profit in the prior year of $20.2m. Included in this year's result was the profit recognised on the early termination of a deferred purchase consideration obligation of $3.3m.

The following represent the key achievements during the year and how these position the business for the future.

1. Growth through international expansion of Funtastic Brands:
    - Pillow Pets™ and LEGO® continue to perform strongly and are expanding into new markets; and
    - Chill Factor™ is becoming a phenomenon in several markets and the recent acquisition of the brand provides FUN with full control as well as increased profitability through the removal of ongoing royalties.
2. Earnings stability from the domestic businesses, FUN Australia and Madman
3. Reinstatement of dividends
4. Balance sheet strengthening:
    - The recent capital raising delivered $14.6m; and
    - Net debt was reduced by $9.9m during the year

Outlook

The Board is comfortable that the recent repositioning of the company has resulted in a stable more predictable business. This is illustrated by the fact that in the 2014 financial year over a third of revenue will come from Funtastic owned brands and over half of the revenue will come from Funtastic manufactured items.

The Board's view is that the retail climate will remain tough and they see no particular signs of a change in consumer sentiment.

Domestically Funtastic Australia has a stable portfolio of successful and popular brands. The Madman management team continue to deftly navigate structural changes in the sector which are resulting in a decline in the sales of physical media (DVD and Blu Ray). They have positioned the business to perform just as strongly in the future when physical media will represent a smaller proportion of the market than it has traditionally. The Board do not expect strong domestic growth, but are confident that both businesses will continue to maintain solid and sustainable earnings.

Funtastic will continue to experience strong growth outside Australia through its own brands. With sales currently in in excess of 40 countries, the recent acquisition of Chill Factor™ and the continued strength of Pillow Pets™ and LEGO® ensure that the business has a strong group of brands with broad consumer appeal across numerous international markets.

In light of the above, the Board believe that Funtastic will deliver earnings per share growth in 2013/14.

The Directors would like to thank all of our staff, shareholders, suppliers and customers for their ongoing loyalty and support.

Shane Tanner
Chairman of the Board

Stewart Downs
Managing Director

For personal use only

TABLE OF CONTENTS

Company Information		5
Corporate Governance		6
Directors' Report		12
Remuneration Report (Audited)		21
Auditor's Independence Declaration		30
Independent Auditors' Report		31
Directors' Declaration		33
Consolidated Statement of Profit or Loss and other Comprehensive Income for the year ended 31 July 2013		34
Consolidated Statement of Financial Position as at 31 July 2013		35
Consolidated Statement of Changes in Equity for the year ended 31 July 2013		36
Consolidated Statement of Cash Flows for the year ended 31 July 2013		37
Notes to the Financial Statements 31 July 2013		38
NOTE 1:	Application of new and revised Accounting Standards	38
NOTE 2:	Significant accounting policies	41
NOTE 3:	Critical accounting judgments and key sources of estimation uncertainty	49
NOTE 4:	Segment information	49
NOTE 5:	Revenue	51
NOTE 6:	Profit for the year	52
NOTE 7:	Income tax	53
NOTE 8:	Finance Costs	55
NOTE 9:	Current assets – Trade and other receivables	55
NOTE 10:	Current assets - Inventories	57
NOTE 11:	Other Assets	57
NOTE 12:	Current tax assets/(liabilities)	57
NOTE 13:	Other financial assets	57
NOTE 14:	Non-current assets – Property, plant and equipment	58
NOTE 15:	Non-current assets - Goodwill	60
NOTE 16:	Non-current assets – Other intangibles	62
NOTE 17:	Non-current assets – Other financial assets	63
NOTE 18:	Assets pledged as security	63
NOTE 19:	Current Liabilities – Trade payables	63
NOTE 20:	Borrowings	64
NOTE 21:	Provisions	65
NOTE 22:	Deferred purchase consideration	65
NOTE 23:	Other Liabilities	66
NOTE 24:	Other financial liabilities	66
NOTE 25:	Leasing arrangements	66

For personal use only

TABLE OF CONTENTS

NOTE 26:	Issued Capital	67
NOTE 27:	Accumulated losses	69
NOTE 28:	Reserves	69
NOTE 29:	Earnings per share	71
NOTE 30:	Dividends on equity instruments	72
NOTE 31:	Lease Commitments	73
NOTE 32:	Operating Leases	74
NOTE 33:	Subsidiaries	75
NOTE 34:	Acquisition of businesses	78
NOTE 35:	Notes to the cash flow statements	79
NOTE 36:	Financial Instruments	80
NOTE 37:	Share-based payments	87
NOTE 38:	Key management personnel compensation	94
NOTE 39:	Related party transactions	95
NOTE 40:	Remuneration of Auditors	101
NOTE 41:	Parent entity disclosures	102
NOTE 42:	Subsequent Events	103
NOTE 43:	Contingent Liabilities	103
NOTE 44:	General Information	103
Additional stock exchange information as at 26 September 2013		104

For personal use only

Company Information

Directors	Shane Tanner *Chairman and Independent Non-Executive Director* Stewart Downs *Managing Director and Chief Executive Officer* Nir Pizmony *Executive Director* Paul Wiegard *Executive Director* Craig Mathieson *Non-Executive Director* Stephen Heath *Independent Non-Executive Director* Linda Norquay *Independent Non-Executive Director*
Company Secretary	James Cody
Registered Office	Level 2 Tower 2 Chadstone Place 1341 Dandenong Road Chadstone Vic 3148
Principal Administrative Office	Level 2 Tower 2 Chadstone Place 1341 Dandenong Road Chadstone Vic 3148
Share Registry	Boardroom Limited Level 8, 446 Collins Street Melbourne VIC 3000
Auditors	Deloitte Touche Tohmatsu 550 Bourke Street Melbourne Vic 3000
Bankers	National Australia Bank 500 Bourke Street Melbourne Vic 3000
Solicitors	Clarendon Lawyers Level 17, Rialto Tower 525 Collins Street Melbourne VIC 3000

For personal use only

Corporate Governance Statement

The Corporate Governance principles that guide the operations of Funtastic Limited ("Funtastic" or "Company") are detailed in this statement. Funtastic respects and endorses the ASX Corporate Governance Council's Principles and Recommendations. The Board believes that it has been compliant with the spirit of the ASX Corporate Governance Council's Principles and Recommendations throughout the 2013 financial year.

The ASX principles that have been adopted are outlined below. Where an alternative approach has been adopted, this is outlined within the relevant section. All these practices unless otherwise stated, were in place for the entire year.

Role and Responsibility of the Board

The Board of Directors is elected by the shareholders to represent the interests of all shareholders, collectively, and in this regard, its primary purpose is to safeguard the financial security of Funtastic.

Although responsibility for the operation of the Funtastic business is delegated to management, the Board remains responsible for, amongst other things:

- establishing, monitoring and modifying Funtastic's corporate strategies;
- ensuring best practice corporate governance;
- appointing the Chief Executive Officer and approving succession plans;
- monitoring the performance of Funtastic's management;
- ensuring that appropriate risk management systems, internal control and reporting systems and compliance frameworks are in place and are operating effectively;
- monitoring financial results;
- ensuring that business is conducted ethically and transparently;
- approving decisions concerning Funtastic's capital, including capital restructures and dividend policy; and
- ensuring effective external disclosure policies so that the market is fully informed on all matters that may influence the share price.

Board members have complete and open access to management. The Company secretary provides advice and support to the Board and is responsible for the Company's day to day governance framework.

Structure of the Board

The Board comprises four non-executive directors and three executive directors (the Managing Director/Chief Executive Officer, the Executive Director and Managing Director Madman Entertainment). The details of each director's qualifications, experience and skills are set out on page 12 of the Annual Report.

The chairman of the Board is a non-executive director and is elected by the Board. The chairman is responsible for the management of the affairs of the Board and represents the Board in periods between Board meetings.

Board Membership

The members of the Board and details regarding their appointment, removal, term of office, attendance at Board meetings and other committee meetings, skills and experience are detailed in the Directors' Report. The Board composition is determined using the following principles:

- the Board should comprise between 3 and 9 directors;
- the maximum age for directors is 72;
- the Board should comprise directors with a broad range of skills and experience; and
- the term of any appointment is subject to continuing shareholder approval.

The directors believe that limits on tenure may cause loss of experience and expertise that are important contributors to the efficient working of the Board. As a consequence, the Board does not support arbitrary limits on tenure and regards nominations for re-election as not being automatic but based on the needs of Funtastic. The constitution sets out the rules to which Funtastic must adhere and which include rules as to the nomination, appointment and re-election of directors. The constitution provides for two of the directors (excluding the Managing Director) to retire and stand for re-election each year at the Annual General Meeting. Directors appointed during the year by the Board stand for re-election at the next Annual General Meeting.

Board and Director Independence

The Board has assessed the criteria for independence as outlined in the ASX Corporate Governance Council's best practice recommendation 2.1. Independent directors of Funtastic are those not involved in the day to day management of the company and are free from any real or reasonably perceived business or other relationship that could materially interfere with the exercise of their unfettered and independent judgement.

Currently, three of the seven directors are considered to be independent. It is the Board's view that Mr Shane Tanner, Ms Linda Norquay and Mr Stephen Heath are independent directors. Mr Craig Mathieson is not considered to be an independent director due to him being a substantial shareholder.

For personal use only

Board and Director Independence (continued)

Mr Stewart Downs, Mr Nir Pizmony and Mr Paul Wiegard are Executive Directors and are deemed not to be independent directors.

Regardless of whether directors are defined as independent, all directors are expected to bring independent views and judgement to Board deliberations.

The Board strongly believes that the degree of commitment, depth of experience and independence of thought present in the current structure is appropriate and will best serve the company and all its shareholders at this stage of its development. The Board periodically assesses the independence of each director.

Funtastic operates in an entrepreneurial environment and requires, and benefits from, the passionate involvement of directors who have been either instrumental in the business, and or who have specialised knowledge of, and expertise in, this business sector.

Funtastic has noted the ASX Corporate Governance Council's best practice recommendation that listed companies have an independent director as Chairman of the Audit, Risk and Compliance Committee. This Committee is comprised of four non-executive directors. Mr Craig Mathieson is the chairman of the committee. The Board considers that three independent directors on the committee are sufficient for the independence of the committee.

Work of Directors

Materials for Board meetings are circulated in advance. The agenda is formulated with input from the Chief Executive Officer and the Chairman. Directors are free to nominate matters for inclusion on the agenda for any Board or Board committee meeting.

The Board is provided with reports from management on the financial performance of each business unit. The reports include details of all key financial results reported against budgets approved by the Board, with regular updates on forecasts for the year. The Chief Executive Officer and Chief Financial Officer attest to the integrity of the financial reports provided to the Board each meeting. Similarly, the written statement provided to the Board, in relation to Funtastic's full year accounts states that Funtastic's financial reports present a true and fair view, in all material respects. Further, it confirms that Funtastic's financial condition and operational results are in accordance with relevant accounting standards.

Non-executive directors spend approximately thirty days each year on Board business and activities including Board and committee meetings, visits to operations and meeting employees, customers, business associates and other stakeholders.

The Chairman regularly meets with the Chief Executive Officer to review key issues and performance trends affecting the business of Funtastic.

Conflict of Interest

In accordance with the Corporations Act 2001 and Funtastic's Constitution, directors must keep the Board advised on an ongoing basis, of any interest that could potentially conflict with those of Funtastic. Where the Board believes that a significant conflict exists, the director concerned does not receive the relevant Board papers and is not present at the meeting while the item is considered.

Independent Professional Advice

Each director has the right to seek independent professional advice at the expense of Funtastic. Prior written approval of the chairman is required, which will not be unreasonably withheld. All directors are made aware of the professional advice sought and obtained.

Communication and disclosure

The company complies with all relevant disclosure laws and Listing Rules prescribed by the ASX and has policies and procedures designed to ensure accountability at a senior management level for that compliance.

The company secretary is accountable to the Board, through the Chairman, on compliance and governance matters.

Funtastic is committed to effective communication with its investors so as to give them ready access to balanced and understandable information.

Director competencies

The Board plans annual self-assessments of its collective performance, and its subcommittees. This exercise takes into consideration the collective directors' competency, skills, experience and expertise. Where necessary, Funtastic will provide the required resources to assist directors in improving their performance.

New directors are provided with a letter of appointment setting out the Company's expectations, their responsibilities, rights and the terms and conditions of their appointment. All new directors participate in an induction program which covers the operation of the Board and its committees and financial, strategic, operations and risk management issues.

For personal use only

For personal use only

Ethical Standards

All directors, officers and employees are expected to perform their duties professionally and act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of Funtastic and its brands. The Board oversees the identification and implementation of procedures and development of policies in respect of the maintenance of appropriate ethical standards. Funtastic has a Code of Conduct, which sets out the standards as to how directors and employees of Funtastic are expected to act. Employees are required to read the updated Employee Code of Conduct in the performance of their duties and to sign an acknowledgement stating that they have read and understood this document.

Dealings in Funtastic shares by Directors, Officers and Employees

The Board permits directors to acquire shares in Funtastic. It is recommended that all employees do not buy or sell shares in the company at any time they are aware of any material price sensitive information that has not been made public, and are reminded of the laws against "insider trading". Certain "Designated Officers", including all directors and senior executives, are also prohibited from trading during certain "blackout" periods. These blackout periods are:

a) From the close of the accounts (on 31 January each year) to 2 business days after the publication to the ASX of the half-year financial results; i.e. the Appendix 4D (a 2 business day blackout period would apply from the publication to the ASX of the final half-year financial report in the event that they were materially different from the Appendix 4D results);
b) From the close of the accounts (on 31 July each year) to 2 business days after the publication to the ASX of the full-year financial results; i.e. the Appendix 4E (a 2 business day blackout period would apply from the publication to the ASX of the final full-year financial report in the event that they were materially different from the Appendix 4E results); and
c) Forty-eight hours after the public release of any market guidance update.

Exceptions to this prohibition can be approved by the Chairman (for other directors) or the Company Secretary (for all other employees) in circumstances of financial hardship. Prohibitions also apply to financial instruments related to Funtastic shares and to trading in the shares of other entities using information obtained through employment with Funtastic.

In accordance with provisions of the Corporations Act 2001 and the Listing Rules of the Australian Stock Exchange (ASX), directors or their related entities advise the ASX of any transaction conducted by them in buying or selling any shares in Funtastic.

Diversity

Funtastic is an equal opportunity employer and makes its recruitment decisions based on the best person for the role with no discrimination on the grounds of gender or any other factor. The company is committed to being a business which is an appealing and rewarding place to work for men and women.

Funtastic has established a Diversity Policy which is published on the company's website. As at 31 July 2013 the group's mix of employees was as follows:

	Female	Male	Total
General employees	92	76	168
Middle managers	4	15	19
Senior managers	2	10	12
Board	1	11	12
Total	**99**	**112**	**211**

Funtastic has elected not to establish targets with regard to gender mix within its workforce on the grounds that, as a small business such targets could place unreasonable restrictions on the company's ability to operate effectively.

Ethical Compliance

Funtastic uses its best endeavours through contract negotiations to ensure that all its products are manufactured in accordance with local and internationally accepted labour, environmental and employment laws. Funtastic is working to ensure that manufacturing occurs under working conditions that meet legal standards and without the use of child, forced or prison labour.

Nomination Committee

The current members of the Nomination Committee are Shane Tanner (Chairman), Craig Mathieson, Linda Norquay and Stephen Heath.

The role of the Nomination Committee is to assist the Board in ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of a Director, having regard to the law and the highest standards of governance, by:

- assessing the skills, knowledge, experience and diversity required on the Board and the extent to which they are represented;
- establishing processes for the identification of suitable candidates for appointment to the Board; and
- overseeing succession planning for the Board.

Nomination Committee Charter and Responsibilities

The principal purposes of the Committee are to:

- establish a formal and transparent procedure for the selection and appointment of new directors to the Board;
- regularly review the succession plans in place for membership of the Board to ensure that an appropriate balance of skills, experience and expertise is maintained;
- review the time commitment required from a non-executive director and whether non-executive directors are meeting this requirement; and
- take all reasonable steps to ensure that all individuals nominated for appointment to the Board as a non-executive director, expressly acknowledge prior to their election, that they are able to fulfil the responsibilities and duties expected of them.

Nomination Committee Charter and Responsibilities (continued)

The committee seeks advice and guidance, as appropriate, from external experts.

Audit, Risk and Compliance Committee

The members of the Audit, Risk and Compliance Committee are Craig Mathieson (Chairman), Shane Tanner, Linda Norquay and Stephen Heath.

Audit, Risk and Compliance Committee Charter and Responsibilities

The Committee's key responsibilities and functions are to:

- monitor the company's relationship with the external auditor (including the rotation of external auditor personnel on a regular basis) and the external audit function generally;
- oversee the adequacy of internal control systems in relation to the preparation of financial statements and reports; and
- oversee the process of identification and management of business, financial and commercial risks.

Meetings of the Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee may have in attendance or by invitation such members of management or others as it may deem necessary to provide appropriate information or explanations.

The Audit, Risk and Compliance Committee meets at least three times per year and more frequently if required.

The External Auditor attends Audit, Risk and Compliance Committee meetings when requested by the Audit, Risk and Compliance Committee Chairman.

Reporting by the Audit, Risk and Compliance Committee

The Chairman of the Audit, Risk and Compliance Committee ordinarily reports to the full Board after committee meetings. The Audit, Risk and Compliance Committee reports matters regarding its role and responsibilities, including:

- the system of internal control, which management has established to safeguard the company's assets;
- processes are in place such that accounting records are properly maintained in accordance with statutory requirements; and
- processes exist to reasonably guarantee that financial information provided to investors and the Board is reliable and free of material misstatement.

The following are intended to form part of the normal procedures for the Committee's audit responsibility:

- recommending to the Board the appointment and removal of the external auditors and reviewing the terms of engagement;
- approving the audit plan of the internal and external auditors;
- monitoring the effectiveness and independence of the external auditor;
- obtaining assurances that the audit is conducted in accordance with the Auditing Standards and all other relevant accounting policies and standards;
- providing recommendations to the Board as to the need for and the role of an internal audit function;
- reviewing and appraising the quality of audits conducted by the internal and external auditors and confirming their respective authority and responsibilities;
- monitoring the relationship between management and the external auditors;
- determining the adequacy, effectiveness, reliability, and appropriateness of administrative, operating and internal control systems and policies;
- evaluating compliance with approved policies, controls, and with applicable accounting standards and other requirements relating to the preparation and presentation of financial results;
- overseeing financial reporting and disclosure practice and the resultant information; and
- reviewing (in consultation with management and external auditors) the appropriateness of the accounting principles adopted by management in the composition and presentation of financial reports and approving all significant accounting policy changes.

For personal use only

For personal use only

Recognising and managing risk

The responsibility for risk management and oversight is coordinated through the Audit, Risk and Compliance Committee, in conjunction with management. The committee's specific function with respect to risk management is to review and report to the Board that:

- the company's ongoing risk management program effectively identifies areas of potential risk;
- adequate policies and procedures are designed and implemented to manage identified risks; and
- appropriate remedial action is undertaken to redress areas of weakness.

The following are intended to form part of the normal procedures for the Committee's risk responsibility:

- determine the adequacy and effectiveness of the management reporting and systems used to monitor adherence to policies and guidelines and limits approved by the Board for management of financial risks;
- determine the adequacy and effectiveness of financial and operational risk management systems by reviewing risk registers and reports from management and external auditors;
- evaluating the structure and adequacy of business continuity plans;
- determine the appropriateness of insurances on an annual basis;
- reviewing and making recommendations on the strategic direction, objectives and effectiveness of financial and operational risk management policies;
- overseeing the establishment and maintenance of processes to ensure that there is:
  - an adequate system of internal control, management of business risks and safeguard of assets; and
  - a review of internal control systems and the operational effectiveness of the policies and procedures related to risk and control.
- evaluating exposure to fraud and monitoring investigations of allegations of fraud or malfeasance;
- reviewing corporate governance practices for completeness and accuracy;
- determining the adequacy and effectiveness of legal compliance systems; and
- providing recommendations as to the reporting of and propriety of related party transactions.

Management Certification Process

A management certification process has been introduced across the business. The process serves the following purposes:

- provide assurance to the Board to support their approval of the annual financial reports;
- formalise the process by which the executive team sign-off on those areas of risk responsibility delegated to them by the Board; and
- ensure a true and fair view of Funtastic's financial statements.

The key steps in the certification process are as follows:

- completion of a questionnaire by key management covering information that is critical to the financial statements, risk management and internal controls; and
- review by the Audit, Risk and Compliance Committee of all exceptions and management comments.

Certification by the Chief Executive Officer and Chief Financial Officer to the Board that:

- the financial statements provide a true and fair view, in all material respects of Funtastic's financial condition and operating results;
- the financial statements provide a sound system of risk management and internal compliance and control;
- there is compliance with relevant laws and regulations;
- Funtastic's risk management, internal compliance and control systems are operating efficiently and effectively in all material respects; and
- all material business risks have been identified and communicated to the Board.

Internal Audit Function

The internal audit function is absorbed within the head office finance function. The finance function is able to conduct internal control reviews and assessments as and when required by the Audit, Risk and Compliance Committee. The Board received and reviewed the minutes of the meetings of all Board committees including the Audit, Risk and Compliance Committee.

The external audit function is separate and independent of the above functions.

Remuneration and Evaluation Committee

The members of the Remuneration and Evaluation Committee are Stephen Heath (Chairman), Craig Mathieson, Shane Tanner and Linda Norquay.

The Remuneration and Evaluation Committee is appointed by the Board primarily to monitor, review, assess, recommend, and approve:

Remuneration and Evaluation Committee (continued)

- remuneration policies and practices which will serve to attract and retain executives and directors who will create value for shareholders. These policies and practices should fairly and responsibly reward executives and directors, having regard to the performance of the Company, the performance of the individual, and the general remuneration environment;
- succession planning for Senior Executives who report directly to the Chief Executive Officer;
- the remuneration, superannuation and incentive policies for Senior Executives who report directly to the Chief Executive Officer; and
- all equity and cash-based remuneration plans.

The Remuneration and Evaluation Committee provides additional support for the human resources strategy of Funtastic. It assists the Board by ensuring that the appropriate people, people related strategies, policies and procedures are in place to support Funtastic's vision and values, and its strategic and financial goals.

Remuneration and Evaluation Committee Charter and Responsibilities

The committee is responsible for monitoring, reviewing, reporting and recommending to the Board with respect to each of the following:

- the company's policy for determining executive and non-executive directors' remuneration, superannuation, and incentives as well as any retention or other compensation payments, and any proposed amendments to the policy;
- remuneration includes base pay, incentive payments, equity awards, retirement rights and service contracts;
- the implementation of the remuneration policy;
- the proposed specific remuneration for each non-executive and executive director, including the Chief Executive Officer, having regard to independent advice and the remuneration policy. The committee will need to determine whether any shareholder approvals are required. The remuneration of individual non-executive directors will ultimately be determined by the Board and, approved in aggregate by the shareholders in accordance with the Corporations Act 2001 and the ASX Listing Rules;
- the proposed specific remuneration and other benefits for the direct reports of the Chief Executive Officer and the design of all incentive plans, including performance hurdles; and
- the total proposed payments from any executive incentive plan.

The committee seeks advice and guidance, from external experts, as appropriate.

The review of the performance of the Chief Executive Officer is undertaken by the Remuneration and Evaluation Committee, which recommends to the Board any remuneration adjustment or incentive payment.

The review of the performance of senior management is undertaken by the Chief Executive Officer who provides a recommendation to the Remuneration and Evaluation Committee on any remuneration adjustments or incentive payments. The committee provides its recommendation to the Board for approval.

Remuneration Policy

Funtastic's remuneration policies and practices in relation to directors and senior management are disclosed in the remuneration report contained in the Directors' Report.

Remuneration Disclosure

The Remuneration Report contained in the Directors' Report discloses the directors', non-executive directors' and key management personnel's remuneration, benefits, incentives and allowances where relevant.

For personal use only

Directors' Report

Directors

Your Directors present their report on the Group consisting of Funtastic Limited and the entities it controlled at the end of, or during, the year ended 31 July 2013.

The following persons were directors of Funtastic Limited during or since the end of the financial year:

Director	Particulars
Shane Tanner FCPA, ACIS Chairman and Independent Non-executive director	Appointed to the Board in March 2009 as an Independent Non-executive director and appointed as Chairman of the Board effective from the AGM on 21 May 2010. Mr Tanner is Chairman of the Nomination Committee and a member of the Remuneration and Evaluation Committee and the Audit, Risk and Compliance Committee. He is Chairman of Vision Eye Institute Ltd and Paragon Care Ltd. Mr Tanner is a former CEO of Mayne Nickless Diagnostic Services and Director of Sterihealth Ltd. Mr Tanner has a vast commercial and financial experience.
Stewart Downs Managing Director and Chief Executive Officer	Joined the Board in August 2009. Mr Downs has been the Chief Executive Officer of Funtastic since February 2009. Mr Downs has had an expansive career in branded consumer businesses across Australia, New Zealand and Asia successfully leading turnarounds in Australia and developing new businesses in Asia. He has held roles across sales, marketing, finance and in the last 10 years senior general management positions. He has a Bachelor of Business and Commerce majoring in Economics, Business Administration and Accountancy.
Craig Mathieson B.Bus Non-executive director	Appointed to the board in August 2009 as a Non-executive director. Mr Mathieson is Chairman of the Audit, Risk and Compliance Committee, a member of the Remuneration and Evaluation Committee and of the Nomination Committee. Mr Mathieson is CEO of The Mathieson Group. He was MD of DMS Glass from 2001 to 2007. He has a banking and commercial background gained while working with the Business Banking division of ANZ Bank and the Property Finance division of St George Bank.
Nir Pizmony Executive director	Appointed to the board in August 2009 as an Executive director. Mr Pizmony has over twenty-five years' experience in consumer products, he has founded, developed and subsequently sold two successful toy companies. Mr Pizmony's knowledge and reputation in the toy industry is well proven both in Australia and globally.
Paul Wiegard Executive Director	Appointed to the Board in October 2011, Mr Wiegard is a founder and joint Managing Director of Madman Entertainment, the leading independent theatrical, rights management and home entertainment company in Australasia and a division of Funtastic. Mr Wiegard is also a Board member of the Australian Video Software Distributors, the Melbourne International Film Festival and the Australian Independent Distributors Association. Paul brings an impressive depth of knowledge and experience of the entertainment industry.

For personal use only

Stephen Heath

Independent Non-executive director

Appointed to the Board in October 2010 as an Independent Non-executive director. Mr Heath is a member of the Audit, Risk and Compliance Committee, the Nomination Committee and Chairman of the Remuneration and Evaluation Committee.

Stephen has extensive retail experience comprising 18 years across iconic Australian Retail Brands including Harvey Norman, Rebel Sport, and Godfreys. Mr Heath was previously Managing Director of International Cleaning Solutions Holdings which has retail and wholesale interests in Australia, N.Z, and the UK. Prior to this Mr Heath was CEO of Rebel Sport during its public listing on the ASX. Mr Heath also spent 5 years with Sharp Corporation managing the retail accounts of major retailers such as Harvey Norman, Myers, David Jones & Kmart. Mr Heath is currently Managing Director and CEO of Fantastic Holdings Limited.

Linda Norquay

B.Com, CA, GAICD

Independent Non-executive director

Appointed to the Board in September 2011 as an Independent Non-executive director. Ms Norquay is a member of the Audit, Risk and Compliance Committee, the Nomination Committee and the Remuneration and Evaluation Committee.

Mr Norquay is currently Chief Financial Officer at Illyria Pty. Ltd. Ms Norquay brings a wealth of financial and strategic experience to Funtastic Limited and has previously held senior financial and management roles at Allco Finance Group, Macquarie Bank Limited and Barclays Bank Plc in London.

For personal use only

Directorships of other listed companies

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial period are as follows:

Director	Company	Period
Shane Tanner	Vision Eye Institute Ltd	2004 to current
	Paragon Care Limited	2005 to current
Craig Mathieson	Great Western Exploration Ltd	2011 to current
Stephen Heath	Fantastic Holdings Limited	2013 to current

Company Secretary

Mr James Cody was appointed to the position of Company Secretary on 26 March 2010. Mr Cody is also the Chief Financial Officer of the Company and is a CIMA (UK) qualified finance director with a wealth of retail experience, and also brings with him a successful record of strategic and commercial management.

Principal activities

The Group's principal continuing activity during the period was as a wholesaler and distributor operating predominantly in Australia.

Subsequent events

There has not been any other matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Environmental regulations

The Group is not required to hold any Environmental Protection Authority Licences.

Review of operations

Key strategic achievements:

- .Stable probability with rationalised Domestic business
- Normalised Balance Sheet
- Development of Chill Factor™ brand
- Success of Funtastic owned brands and intellectual property up 36%
- International business drive growth

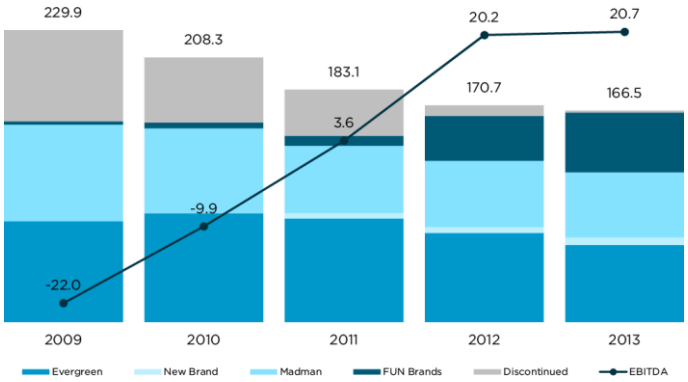
Key operating achievements:

- Acquisition of Chill Factor intellectual property
- Exciting development of Pillow Pets, Stationery and Floaties line
- Building a stronger manufacturing capability in Hong Kong and China

Key financial achievements:

- NPAT[1] up 34% to $14m
- EBITDA[1] up 19% to $24m
- Finance costs fall by 21% to $5.9m
- Underlying borrowings reduced by $9.9m in the period.

Growing Proportion of Recurring Revenue (Total Business)



- Reinstatement of dividend payments
- Inventory grew by $7.9m (50%) during FY13
- Correction of inventory levels during FY14 a key priority
- Capital raising delivered $14.4m (net)

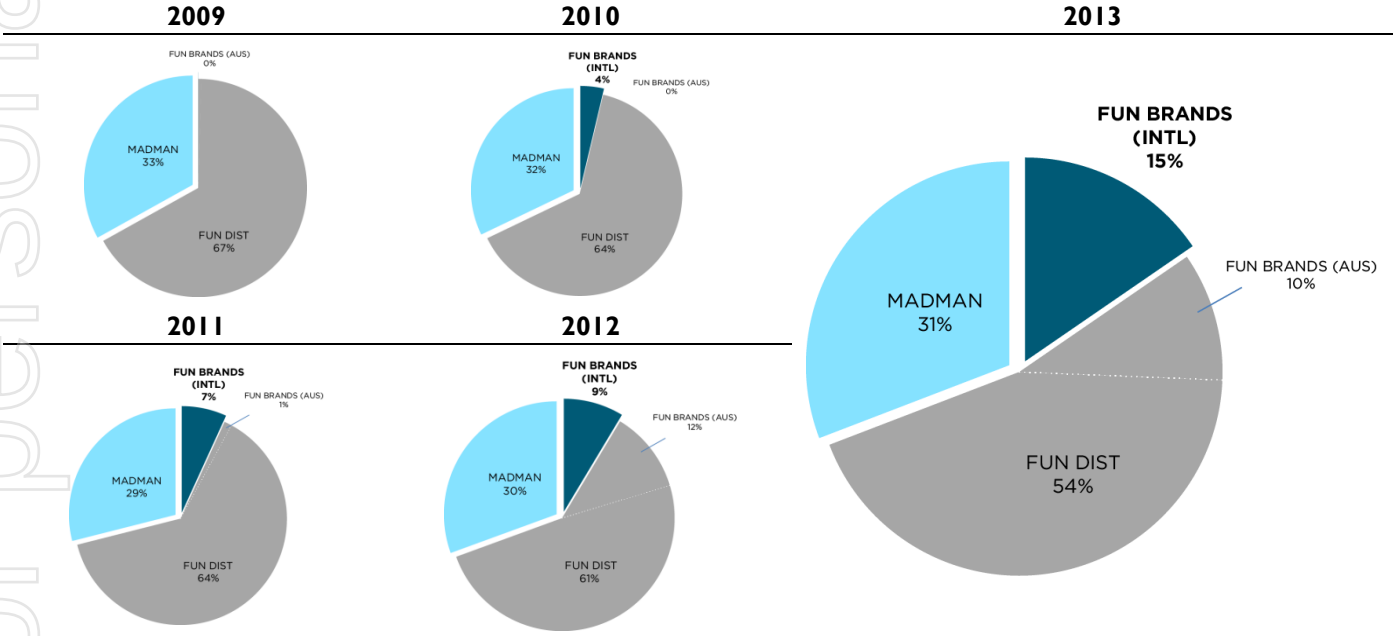
For personal use only

Key Financials:

AUDm	FY13	FY12	% Change
Revenue	166.5	170.7	↓2%
EBITDA[(i)]	24.0	20.2	↑19%
EBIT[(i)]	19.9	17.2	↑15%
NPAT[(i)]	14.0	10.4	↑34%
Basic EPS (cents)	2.58	2.77	↓7%
Dividend per share (cents)	0.10	0.00	n/a
ROE[(ii)]	16%	20%	↓20%
Net Debt ($m)	48.6	58.5	↓17%
Gearing[(iii)]	47%	82%	↓42%
Operating leverage ratio[(iv)]	2.0x	2.9x	↓30%
Interest cover ratio[(v)]	3.4x	2.3x	↑46%

[(i)]Includes $3.3m gain on early settlement of deferred acquisition consideration; [(ii)]NPAT/average shareholder equity; [(iii)]Net debt/shareholder equity [(iv)]Net debt/EBITDA; [(v)]EBIT/finance costs

Total Business Revenue by Division



Outlook

Whilst there are some tentative signs of growth in the Australian retail environment, the Board remain cautious in their outlook domestically. Overseas, where the Group's prospects are less dependent on general retail conditions, the Board is confident of further solid growth.

Funtastic Australia (formerly referred to as Toys & Sporting)

The 2012/13 year did not deliver to management's initial expectations, with a more challenging retail environment than anticipated as well as the poor performance of one of the major mass merchants. However, the business now enjoys a strong stable group of brands and will continue to deliver solid and sustainable earnings.

For personal use only

Outlook (continued)

Funtastic Brands (formerly referred to as International)

The recent acquisition of the Chill Factor brand enhances the Group's portfolio of own brands and intellectual property. Group sales from own brands during 2013/14 will exceed a third of total revenue and Funtastic manufactured products will represent in excess of half of total Group revenues. Funtastic Brands has now established itself as a genuine manufacturing business with a strong support base in both Hong Kong and China. The combination of a strong brand and product mix as well as the capability to deliver consistently on customer demands, will ensure the business continues to enjoy strong growth.

Madman Entertainment

In 2012/13 Madman has again outperformed the industry in an unpredictable and evolving market. Madman has continued to invest in technology to ensure it is well poised to continue to capitalise on the emerging digital delivery channels. Additionally, Madman has a very strong pipeline of content to continue to fuel future demand.

Dividends

During the year, the Directors declared and paid an interim dividend for the year ended 31 July 2013 of 0.5 cents per share (2012: nil). In respect of the financial year ended 31 July 2013, the Directors recommend the payment of a final dividend of 0.5 cents per share franked to 100% at 30% corporate income tax rate to the holder of fully paid ordinary shares on 25 October 2013.

Rounding of amounts to nearest thousand dollars

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report and Financial Statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Share Options

Share options granted to employees

During the financial year, the Company established the Funtastic Employee Share Loan Scheme (ESLS)[(i)]. At the Board's discretion, eligible employees were invited to participate in the scheme, details of the options granted to the following directors and the five most highly remunerated officers of the Company as part of their remuneration are:

Directors and senior management	Number of options granted	Issuing entity	Number of ordinary shares under option
T. Anderson	200,000	Funtastic Limited	200,000
J. Cody	200,000	Funtastic Limited	200,000
S. Downs	400,000	Funtastic Limited	400,000
P.S. Lopez	200,000	Funtastic Limited	200,000
P. Wiegard	200,000	Funtastic Limited	200,000

[(i)]The Employee Share Loan Scheme (ESLS) is treated in substance as an option for accounting purposes and is therefore disclosed as share options in the Directors' Report, Remuneration report and the Notes to the financial statements as a share option. Further details on the ESLS are set out in Note 37 of the financial statements.

For personal use only

Shares under option or issued on exercise of options

Details of unissued shares or interests under option or performance share rights issued by Funtastic Limited as at the date of this report are:

(a) Executive share options (ESOPs)

Issuing entity	Number of ordinary shares under option	Class of share	Exercise Price of options	Expiry Date
Funtastic Limited	200,000	Ordinary	$0.44	02/09/2013
Funtastic Limited	4,000,000	Ordinary	$0.135	10/08/2014
Funtastic Limited	1,000,000	Ordinary	$0.207	01/04/2015
Total ESOP	**5,200,000**			

(b) Ordinary options

Issuing entity	Number of ordinary shares under option	Class of shares	Exercise Price of ordinary options	Expiry Date of ordinary options
Funtastic Limited	1,500,000	Ordinary	$1.50	19/01/2014
Total Ordinary Options	**1,500,000**			

(c) Employee Share Loan Scheme (ESLS)

Issuing entity	Number of ordinary shares under option	Class of shares	Exercise Price of ordinary options	Expiry Date of ordinary options
Funtastic Limited	2,400,000	Ordinary	$0.1599[i]	N/A[ii]
Total Employee Share Option Plan	2,400,000			

[i] Refer to Note 37 of the accompanying notes for further details on the ESLS exercise price
[ii] The expiry date is on the date the employee ceases employment with the Company

Indemnity of officers and auditors

During the financial year the Company paid a premium in respect of a contract insuring the directors of Funtastic Limited and all executive officers of the Company and of any related body corporate against a liability incurred as such director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred by such an officer or auditor.

For personal use only

Meetings of Directors

The number of meetings of the Company's directors held during the year ended 31 July 2013 and the number of meetings attended by each director were:

	Remuneration Committee		Board of directors		Audit, Risk and Compliance Committee	
	A	B	A	B	A	B
S Tanner	1	1	11	12	3	3
S Downs	N/A	N/A	12	12	N/A	N/A
C Mathieson	1	1	12	12	3	3
N Pizmony	N/A	N/A	8	12	N/A	N/A
L Norquay	1	1	10	12	3	3
S Heath	1	1	11	12	3	3
P Wiegard	N/A	N/A	11	12	N/A	N/A

Column A indicates the number of meetings attended during the year the Director was a member of the Board and/or Committee(s).

Column B indicates the number of meetings eligible to attend during the year the Director was a member of the Board and/or Committee(s).

There is also a Nominations Committee but no meetings were held during the year since no changes to Board composition were contemplated.

Directors' shareholdings

Securities in the Company or in a related body corporate in which directors have a relevant interest as at the date of this report were:

Director	Ordinary Shares No.	Share Options No.
S Tanner	400,000	-
S Downs	2,672,776	4,600,000
C Mathieson	111,382,825	-
N Pizmony	30,185,131	-
S Heath	666,667	-
L Norquay	-	-
P Wiegard	1,900,698	200,000

For personal use only

Option holdings

The number of options over ordinary shares in the Company held during the financial year by each director of Funtastic Limited and each of the key management personnel of the Group, including their related entities, are set out below.

Year ended 31 July 2013	Balance at the start of the year	Granted during the period as remuneration	Exercised during the year	Other changes during the year i.e. forfeited/lapsed	Balance at the end of the year	Vested and exercisable at the end of the year[i]
Executive Directors						
Stewart Downs	4,200,000	400,000	-	-	4,600,000	1,333,333
Paul Wiegard	-	200,000	-	-	1,200,000	-
Executives						
James Cody	1,000,000	200,000	-	-	200,000	-
Tim Anderson	-	200,000	-	-	200,000	-
Pedro Sangil	-	200,000	-	-	200,000	-

[i] The Board has discretion to waive any vesting conditions or other restrictions to the ESLS in accordance with the ESLS plan rules provided such amendments do not widely prejudice the rights of existing participants.

Year ended 31 July 2012	Balance at the start of the year	Granted during the period as remuneration	Exercised during the year	Other changes during the year i.e. forfeited/lapsed	Balance at the end of the year	Vested and exercisable at the end of the year
Executive Directors						
Stewart Downs	4,200,000	-	-	-	4,200,000	-
Executives						
James Cody	1,000,000	-	-	-	1,000,000	-

For personal use only

Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 40 to the financial statements. The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in Note 40 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit, Risk and Compliance Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Auditor's independence declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 30 of this annual report.

For personal use only

Remuneration Report (Audited)

Details of key management personnel

The following directors and key management personnel of the Group during or since the end of the financial year were:

Shane Tanner	Chairman and Independent Non-executive Director
Stewart Downs	Managing Director and Chief Executive Officer
Craig Mathieson	Non-executive Director
Nir Pizmony	Executive Director
Stephen Heath	Independent Non-executive Director
Linda Norquay	Independent Non-executive Director
Paul Wiegard	Executive Director
Tim Anderson	Joint Managing Director – Madman Entertainment
James Cody	Chief Financial Officer & Company Secretary
Pedro Sangil Lopez	Group Manager - Asia

Remuneration policy for directors and executives

Principles of Compensation

The Remuneration and Evaluation Committee makes specific recommendations to the Board on compensation packages and other terms of employment for directors and other senior executives. The Board then considers these recommendations and makes appropriate determinations, with compensation packages set at a level that is intended to attract and retain executives capable of managing the consolidated entity's diverse operations.

Compensation of the senior executives is reviewed on an annual basis by the Remuneration and Evaluation Committee having regard to personal and corporate performance and relevant comparative information. Compensation for senior executives comprises both fixed compensation and an "at risk" component. The "at risk" component comprises a short term incentive payment based on a combination of the company's results and individual performance levels, and a long term incentive component pursuant to the Funtastic Executive Share Option Plan and the Funtastic Employee Performance Share Rights Plan and Employee Share Loan Scheme (ESLS).

The payment of short-term incentives is dependent on the achievement of operating and financial targets set at the beginning of each year and assessed on an annual basis by the board.

Compensation and other terms of employment for senior executives are formalised in service agreements.

For personal use only

Remuneration Report (continued)

Compensation and company performance

The Group's executive remuneration is directly related to the performance of the Group through the linking of short and long term incentives to certain financial performance measures. These performance measures, as described below, are selected by the Board of directors and considered relevant to the management of the diverse operations of the Group and to effectively align the long-term interests of the directors, executives and shareholders. The performance conditions are assessed periodically by the Remuneration and Evaluation Committee to ensure they remain relevant.

Funtastic Limited's Net Profit after Tax (NPAT) and Diluted Earnings per Share (EPS) growth have been the central performance measures for the Company's incentive plans for executives since listing (2000). Other measures include revenue growth, return on average funds employed, net operating cash flow, total shareholder return and other business objectives.

As the Group continues to implement its turnaround strategy, the total Short Term Incentive ("STI") eligible payments made in 2013 were NIL (2012: $380,000). The long term financial incentive performance hurdle rates have not been achieved, either in financial year 2013 or in financial period 2012.

The table below shows the Group's earnings in the reporting period and the previous four financial periods/years as well as an indication of the Group's value over the corresponding period:

	Year ended 31 July 2013	Year ended 31 July 2012	Year ended 31 July 2011	7 months ended 31 July 2010	Year ended 31 Dec 2009
NPAT ($'000)[(i)]	**13,962**	10,436	(38,205)	(3,579)	(41,664)
EPS Basic (Cents)[(ii)]	**2.58**	2.77	(11.2)	(1.05)	(17.9)
Diluted EPS (Cents)[(ii)]	**2.57**	2.77	(11.2)	(1.05)	(17.9)
Total Dividends ($'000)	**2,702**	Nil	Nil	Nil	Nil
Year End Share Price ($)	**0.17**	0.16	0.07	0.22	0.22
Shares on Issue (No.)	**642,169,723**	537,799,605	340,997,682	340,997,682	340,997,682
Market Capitalisation ($'000)	**109,169**	86,048	23,870	75,019	75,019

[(i)]NPAT from continuing operations
[(ii)]Basic & Diluted EPS from continuing operations

Components of Compensation

Fixed Compensation

The terms of employment for all executive management contain a fixed compensation component, which is expressed in local currency. This fixed component is set in accordance with the market rate for a comparable role by reference to appropriate external benchmark information and having regard to an individual's responsibilities, performance, qualifications, experience and location. An executive's compensation is also reviewed on promotion.

Fixed compensation includes contributions to superannuation and pension plans in accordance with relevant legislation or as contractually required. Fixed compensation is structured as a total employment cost package which may be delivered to the executive as a mix of cash and prescribed non-financial benefits at the executive's discretion. There are no guaranteed pay increases in any senior executive's contract.

Benefits for termination of employment may be payable subject to the circumstances of the termination and within the terms of the employment contract.

For personal use only

Remuneration Report (continued)

At risk Compensation

Annual Bonus

The annual cash bonus represents the actual entitlements payable under Funtastic's annual short-term incentive plan (STI). Details are set out below of the amount available for the bonus and the performance conditions that were required to be satisfied in order for the bonus to be payable.

The STI plan is a cash-based plan that involves linking specific targets (predominantly financial) with the opportunity to earn incentives based on a percentage of fixed compensation.

Performance measurements have been applied to each component of STI and accordingly entitlements were determined with regard to the executive's level and area of responsibility. Performance against the objectives was determined and incentives and entitlements assessed against the audited financial results.

The terms of Stewart Downs, Nir Pizmony, James Cody and Pedro Sangil Lopez's STI bonuses are outlined below:

- In the event that the Group's earnings before interest, tax, depreciation and amortisation (EBITDA) for the 12 months from 1 August 2012 to 31 July 2013 exceeds $25 million, each individual will be eligible for a bonus as follows.
  - Stewart Downs ($85,000), Nir Pizmony ($70,000), James Cody ($25,000) and Pedro Sangil Lopez (30% of Gross Package)

The terms of Tim Anderson and Paul Wiegard's STI bonuses are outlined below:

- In the event that Madman Entertainment's earnings before interest, tax and amortisation expenses (EBITA) for the 12 months from 1 August 2012 to 31 July 2013 meets or exceeds the Board approved budget and the Group meets or exceeds Board approved for the financial year, each individual will be eligible for a bonus of 50% up to a maximum of 50% of their total package (from 1 January 2013 $350,000 plus superannuation).
- The remaining 50% will be payable in the event the Group met or exceeded a target of $28.0m EBITDA.
- EBITA has the following agreed normalisations:
  - Subtract 20% of any change in balance sheet totals for capital expenditure and inventory compared to the prior period; and
  - Exclusion of all costs and expenses of auditing Entertainment's financial statements and any other non-operational costs charged by Head Office.

For personal use only

Remuneration Report (continued)

Remuneration of Key management personnel compensation

The aggregate compensation of the key management personnel of the Group is set out below:

	Short-term employee benefits			Post-employment benefits			Share-based payments			
Year ended 31 July 2013	Salary and fees $	Cash Bonus $	Non-monetary benefits $	Superannuation $	Other long-term employee benefits $	Termination Benefits $	Options $	Options Under Employee Share loan scheme $	Total $	Consisting of options / PSRs %
Directors										
Shane Tanner	123,600	-	-	-	-	-	-	-	123,600	-
Stewart Downs	484,985	-	-	25,000	2,259	-	5,504	807	518,555	1.22%
Craig Mathieson	56,697	-	-	5,119	-	-	-	-	61,816	-
Nir Pizmony	380,323	-	-	34,127	407	-	-	-	414,857	-
Stephen Heath	58,872	-	-	2,944	-	-	-	-	61,816	-
Linda Norquay	61,800	-	-	-	-	-	-	-	61,800	-
Paul Wiegard	321,101	-	-	28,992	6,050	-	-	403	356,546	0.11%
	1,487,378	**-**	**-**	**96,182**	**8,716**	**-**	**5,504**	**1,210**	**1,598,990**	**0.42%**
Executives										
James Cody	324,295	-	-	20,795	356	-	12,612	403	358,461	3.63%
Tim Anderson	319,695	-	-	24,872	6,050	-	-	403	351,020	0.11%
Pedro Sangil Lopez	220,251	-	-	2,667	-	-	-	403	223,321	0.18%
	864 241	**-**	**-**	**48,334**	**6,406**	**-**	**12,612**	**1,209**	**932,802**	**1.48%**
	2,357,619	**-**	**-**	**144,516**	**15,122**	**-**	**18,116**	**2,419**	**2,531,792**	**0.81%**

personal use only

Remuneration Report (continued)

Remuneration of Key management personnel compensation

The aggregate compensation of the key management personnel of the Group is set out below:

	Short-term employee benefits			Post-employment benefits		Share-based payments		
Year ended 31 July 2012	Salary and fees $	Cash Bonus $	Non-monetary benefits $	Superannuation $	Other long-term employee benefits $	Options $	Total $	Consisting of options / PSRs %
Directors								
Shane Tanner	120,000	-	-	-	-	-	120,000	-
Stewart Downs	490,422	85,000	-	23,617	11,701	95,935	706,675	13.58%
Craig Mathieson	57,163	-	-	5,145	-	-	62,308	-
Nir Pizmony	392,520	70,000	-	41,561	1,008	-	505,089	-
Stephen Heath	57,163	-	-	5,145	-	-	62,308	-
Linda Norquay[(i)]	55,000	-	-	-	-	-	55,000	-
Paul Wiegard[(ii)]	337,351	100,000	-	26,111	11,898	-	475,360	-
James Flintoft[(iii)]	6,987	-	-	629	-	-	7,616	-
	1,516,606	**255,000**	**-**	**102,208**	**24,607**	**95,935**	**1,994,356**	
Executives								
James Cody	339,597	25,000	-	16,791	832	45,702	427,922	10.68%
Tim Anderson	332,555	100,000	-	26,042	11,898	-	470,495	-
	672,152	**125,000**	**-**	**42,833**	**12,730**	**45,702**	**898,417**	
	2,188,758	**380,000**	**-**	**145,041**	**37,337**	**141,637**	**2,892,773**	

[(i)]Mrs L Norquay– appointed to the Board effective 2 September 2011;
[(ii)]Mr P Wiegard – appointed to the Board effective 24 October 2011; and
[(iii)]Mr J Flintoft – resigned from the Board on 2 September 2011

personal use only

Remuneration Report (continued)

Share Options/Share Performance Right Plans

The Company's long-term incentive arrangements are designed to link executive compensation with growth in shareholder value through the grant of options or rights over equity securities (shares) in the Company. Options are granted under the Company's Executive Share Option Plan (ESOP) which was approved by shareholders and directors of the Company on 2 August 2000. Performance Share Rights are granted under the Funtastic Employee Performance Share Rights Plan (EPSR) which was established in 2005.

Participation in the ESOP and/or EPSR is offered to executives who are able to influence, or who have the potential to influence, the generation of shareholder wealth, as assessed against the LTI performance hurdles.

In general, eligible executives are offered annual grants under the plans which in total are designed to be the equivalent of up to 30% of their annual fixed compensation on an annualised basis.

Options and/or rights are granted for no consideration. The performance periods, performance hurdles and other terms and conditions are set by the Board for each grant of options or rights. The options or rights vest and become exercisable only when the specific criteria for each grant are met.

Share Options/Performance Share Rights granted

During the financial year, the following share-based payment arrangements were in existence:

Share-based payment	Series	Grant date	Expiry date	Grant date average fair value	Vesting date	Performance conditions
Share option	33	20/03/2008	02/09/2013[i]	$0.115	31/08/2011	2
Share option	35	21/08/2009	10/08/2014	$0.072	21/08/2012	3
Share option	37	01/04/2010	01/04/2015	$0.119	09/11/2011 & 09/11/2012	4
Share option	ESLS	24/06/2013	N/A[iii]	$0.1599	01/01/2016	N/A[ii]

[i]Share option series 33 lapsed on2 September 2013, no options were exercised. The fair value of these options at 2 September 2013 was $nil.
[ii]There are no performance conditions attached to this share option. The only vesting condition is for participants to remain in employment until 1 January 2016. The design of the ESLS is to link executive compensation with continuing service commitment to Funtastic and growth in shareholder value.
[iii]The expiry date is on the date the employee ceases employment with Funtastic whether vested or not.

The performance conditions attached to the Company's share options and Performance Share Rights are outlined below:

Share Options - Performance condition 2 (type 2)

In respect to one half of the options granted the following performance conditions are required to be achieved:

a) for 50% to vest the average annual diluted earnings per share (EPS) growth rate over a three year period, is required to be 11%pa;
b) for the remaining 50% to vest the average annual diluted EPS growth rate over a three year period, is required to be 15%pa;
c) if the average annual growth in diluted EPS growth over the three year period, is between 11%pa and 15%pa, the options will vest proportionately from 50% up to 100% of the entitlement; and
d) the employee being in continuous employment with the company until 31 March in the year following the three years.

In respect of the other half of the options granted the following performance conditions are required to be achieved:

a) for 50% to vest, Funtastic's relative total shareholders return (TSR) during the three year period is required to be at least equal to the TSR achieved by the company which is the median of the companies in the Comparator Group ranked by TSR performance (The Comparator Group comprises the companies in the S&P ASX small ordinaries index at the start of the period);
b) for the remaining 50% of the entitlement to vest, Funtastic's TSR has to be equal to or greater than the TSR of the company which is at the 75th percentile of the Comparator Group ranked by TSR performance during the three year period;
c) for each percentile increase in Funtastic's TSR ranking above the median ranking up to the 75th percentile, an additional 2% vests up to 100%; and
d) the employee being in continuous employment with the Company until 31 August in the year following the three years.

For personal use only

Remuneration Report (continued)

The amounts disclosed above for remuneration relating to ESOPs and EPSRs are the assessed fair values at the date they were granted to executives. Fair values have been determined in accordance with AASB 2 'Share Based Payments' where the value is determined at grant date, and are included in remuneration on a proportionate basis from grant date to vesting date. Details of the valuation method are disclosed in Note 2(m).

Share Options - Performance condition 3 (type 3)

For each of the three years, one third of the options will vest on the anniversary of employment provided there is a 30% compound share growth based on the exercise price of 13.5 cents. In such case the following performance hurdles are required to be achieved:

a) in year 1 the share price to be no less than 17 cents;
b) in year 2 the share price to be no less than 23 cents; and
c) in year 3 the share price to be no less than 30 cents.

If the performance hurdle rate is not achieved for any particular year the allocation of options for that year will still vest if the cumulative performance hurdle for the following year or years is achieved. In such cases the vested options roll over to the year when the cumulative performance hurdle is achieved.

Performance hurdles will be achieved if the requisite share price is maintained for any six months of the relevant 12 month period, based on the volume weighted average market price of the shares on the ASX for each month commencing on the first day of employment with Funtastic.

Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

The exercise price of options is based on the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the five days immediately before the options are granted. Amounts receivable on the exercise of options are recognised as share capital.

Share Options - Performance condition 4 (type 4)

Type 4 options are identical to type 3 options in every regard, except that for each of the three years, one third of the options will vest on the anniversary of employment provided there is a 30% compound share growth based on the exercise price of 20.7 cents. In such case the following performance hurdles are required to be achieved:

a) in year 1 the share price to be no less than 27 cents;
b) in year 2 the share price to be no less than 35 cents; and
c) in year 3 the share price to be no less than 45 cents.

Employee Share Loan Scheme

During the financial year, the Company established the Funtastic Employee Share Loan Scheme (ESLS). At the Board's discretion, eligible employees were invited to participate in the scheme.

The Funtastic Employee Share Loan Scheme Trust (Trust) was established for the purpose of purchasing and holding shares on behalf of participants to satisfy exercises made under the ESLS operated by Funtastic. Under the ESLS, an interest free limited recourse loan (a loan where the participant's risk will be limited to the shares issued to the participant under or in connection with the plan) to the value of the grant date issue price per share was granted to each participant. Each participant directs Funtastic to pay the loan amount to the trustee of the Trust and the trustee to use the loan amount to acquire shares on behalf of the Participant.

The loan is repayable by the participant when the options become exercisable, being after the vesting date and subject to the satisfaction of the vesting conditions. When the options are exercisable, in the event that the balance of the loan is less than the estimated market value of shares that secure a loan less estimated transaction costs, a participant may request Funtastic to sell the shares on the ASX and that the funds received from the sale of those shares, less any costs incurred in connection with the sale and less the loan balance be remitted to the participant.

The shares are eligible to participate in dividends declared by the Company. Any dividends paid will be utilised to reduce the carrying value of each scheme's participant's individual loan balance on the dividend payment date.

In the event that the loan balance is greater than the sale proceeds, a participant may request Funtastic to transfer the shares which secure the loan to the participant provided that the participant remits any outstanding balance of the loan to Funtastic as repayment of the loan.

For personal use only

Remuneration Report (continued)

In the event that an employee ceases employment with Funtastic, is entitled to vested shares and does not direct Funtastic to sell or transfer such Shares to the participant and the balance of the loan is greater than the estimated proceeds amount, Funtastic must buy back and cancel such shares with the consideration from the buyback being the full satisfaction of the then outstanding balance of the loan. The participant will have no further entitlements to or in respect of the shares.

No performance conditions are attached to the ESLS and the only vesting condition is a service condition which requires participants to remain in employment until 1 January 2016. The options become exercisable only when the vesting condition is met.[1]

The expiry date of the ESLS options is on the date the employee ceases employment with Funtastic. Further details on the ESLS, the ESLS Trust and the ESLS interest free limited recourse loan are set out in Note 37 of the financial statements.

[1]The board has discretion to waive any vesting conditions or other restrictions attached to the ESLS in accordance with the ESLS plan rules provided that such amendments do not unduly prejudice the rights of existing participants

Shares provided on exercise of remuneration options

Details of ordinary shares in the Company, issued during the current year and prior period, as a result of the exercise of remuneration options to each director of Funtastic Limited and each of the key management personnel of the Group are set out below.

No amounts are unpaid or outstanding on any shares issued on the exercise of options.

No ESOPs or ESLS were exercised during the current financial year or preceding financial year.

Service Agreements

Remuneration and other terms of employment for the Chairman, Managing Director, Non-Executive Directors, Chief Executive Officer and the other executives are formalised in service agreements/employment letters. Each of these allow for the provision of performance-related cash bonuses, other benefits including car allowances and participation, when eligible, in the Funtastic Limited Employee Share Option Plan, the Funtastic Limited Employee Performance Share Rights Plan and/or the Funtastic Limited Employee Share Loan Scheme.

Other major provisions of the agreements relating to remuneration are set out below.

Shane Tanner – Chairman & Independent Non-executive Director

- Term of the agreement - full-time permanent and no specific term.
- Payment of a termination benefit on early termination by the employer is not applicable.

Stewart Downs – Managing Director & Chief Executive Officer

- Term of the agreement - full-time permanent and no specific term.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 6 months' base salary.
- Notice period 6 months.

Craig Mathieson – Non-executive Director

- Term of the agreement - full-time permanent and no specific term.
- Payment of a termination benefit on early termination by the employer is not applicable.

Nir Pizmony – Executive Director

- Term of the agreement - full-time permanent and no specific term.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 6 months' base salary.
- Notice period 6 months.

For personal use only

Paul Wiegard – Executive Director

- Term of the agreement - full-time permanent and no specific term.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 6 months' base salary.
- Notice period 6 months

Stephen Heath – Non-executive Director

- Term of the agreement - full-time permanent and no specific term.
- Payment of a termination benefit on early termination by the employer is not applicable.

Linda Norquay – Non-executive Director

- Term of the agreement - full-time permanent and no specific term.
- Payment of a termination benefit on early termination by the employer is not applicable.

James Cody - Chief Financial Officer & Company Secretary

- Term of the agreement - full-time permanent and no specific term.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 3 months base salary.
- Notice period 3 months.

Tim Anderson – Joint Managing Director - Madman Entertainment

- Term of the agreement – full-time permanent and no specified term.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 6 months base salary.
- Notice period 6 months

Pedro Sangil Lopez – Group Manager - Asia

- Term of the agreement – full-time permanent and no specified term.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 6 months base salary.
- Notice period 6 months

This directors' report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors,

Shane Tanner
Chairman of the Board
Melbourne
30 September 2013

For personal use only

For personal use only

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

The Board of Directors
Funtastic Limited
Level 2, Tower 2, Chadstone Place
1341 Dandenong Road,
CHADSTONE VIC 3148

30 September 2013

Dear Board Members

Funtastic Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Funtastic Limited.

As lead audit partner for the audit of the financial statements of Funtastic Limited for the financial year ended 31 July 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

Chris Biermann
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

For personal use only

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

DX 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

Independent Auditor's Report to the Members of Funtastic Limited

Report on the Financial Report

We have audited the accompanying financial report of Funtastic Limited, which comprises the consolidated statement of financial position as at 31 July 2013, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, 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 as set out on pages 33 to 103.

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 control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated 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 whether the financial report is free from material misstatement.

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

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

For personal use only

Deloitte.

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Funtastic Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Funtastic 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 31 July 2013 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 consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 21 to 29 of the directors' report for the year ended 31 July 2013. 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 Funtastic Limited for the year ended 31 July 2013, complies with section 300A of the *Corporations Act 2001*.

DELOITTE TOUCHE TOHMATSU

Chris Biermann
Partner
Chartered Accountants
Melbourne, 30 September 2013

Directors' Declaration

The directors declare that:

a) in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
b) in the directors' opinion the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 2 to the financial statements;
c) in the directors' opinion, the attached financial statements and Notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group; and
d) the directors have been given the declarations required by section 295A of the Corporations Act 2001.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418 and has entered into a deed of cross guarantee as contemplated in that order. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in Note 33 to the financial statements will, as a Group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the Directors,

Shane Tanner
Chairman of the Board
Melbourne
30 September 2013

For personal use only

Consolidated Statement of Profit or Loss and other Comprehensive Income for the year ended 31 July 2013

	Note	**Year ended 31 July 2013 $'000**	Year ended 31 July 2012 $'000
Continuing operations			
Revenue	5	**166,545**	170,693
Cost of goods sold		**(94,544)**	(99,090)
Gross profit		**72,001**	71,603
Investment income	6	**612**	281
Warehouse and distribution expenses		**(13,264)**	(13,362)
Marketing and selling expenses		**(23,565)**	(25,288)
Administration expenses		**(15,080)**	(13,036)
Gain on early settlement of deferred consideration	22	**3,272**	-
Earnings before interest, taxation, depreciation and amortisation expenses (EBITDA)		**23,976**	20,198
Finance costs	8	**(5,852)**	(7,410)
Depreciation and amortisation expenses	6	**(4,095)**	(2,958)
Profit before income tax		**14,029**	9,830
Income tax (expense) / benefit	7	**(67)**	606
Profit for the year from continuing operations		**13,962**	10,436
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Exchange differences arising on translation of foreign operations		**173**	(220)
Profit on cash flow hedges taken to equity		**1,962**	853
Other comprehensive income for the year (net of tax)		**2,135**	633
Total comprehensive income attributable to members of Funtastic		**16,097**	11,069
Earnings per share		**Cents**	Cents
From continuing operations:			
Basic (cents per share)	29	**2.58**	2.77
Diluted (cents per share)	29	**2.57**	2.77

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

For personal use only

Consolidated statement of Financial Position as at 31 July 2013

	Note	31 July 2013 $'000	31 July 2012 $'000
Current Assets			
Cash	35	**4,305**	2,257
Trade and other receivables	9	**36,024**	37,717
Inventories	10	**23,964**	14,668
Other financial assets	13	**1,552**	100
Other assets	11	**10,362**	9,044
Tax assets	12	**139**	-
Total Current Assets		**76,346**	63,786
Non-Current Assets			
Property, plant and equipment	14	**2,919**	2,442
Goodwill	15	**78,845**	78,845
Other intangibles	16	**21,049**	10,123
Deferred tax assets	7	**12,876**	13,388
Other assets	11	**15,765**	12,895
Other financial assets	17	**-**	200
Total Non-Current Assets		**131,454**	117,893
Total Assets		**207,800**	181,679
Current Liabilities			
Trade payables	19	**19,968**	17,259
Borrowings[i]	20	**43,169**	46,020
Provisions	21	**1,830**	3,746
Deferred purchase consideration	22	**924**	3,502
Other liabilities	23	**20,411**	7,695
Current tax liabilities	12	**-**	640
Other financial liabilities	24	**663**	2,378
Total Current Liabilities		**86,965**	81,240
Non-Current Liabilities			
Borrowings	20	**9,708**	14,750
Provisions	21	**1,093**	1,401
Deferred tax liabilities	7	**6,300**	5,599
Deferred purchase consideration	22	**-**	6,015
Other liabilities	23	**787**	917
Total Non-Current Liabilities		**17,888**	28,682
Total Liabilities		**104,853**	109,922
Net Assets		**102,947**	71,757
Equity			
Issued capital	26	**204,497**	186,725
Accumulated losses	27	**(102,473)**	(113,733)
Reserves	28	**923**	(1,235)
Total Equity		**102,947**	71,757

[i]Includes trade debtor and trade finance facilities that will be available to the Group until at least 31 October 2014 (Note 20).

The above statement of financial position should be read in conjunction with the accompanying notes.

For personal use only

Consolidated Statement of Changes in Equity for the year ended 31 July 2013

	Share Capital $'000	Accumulated Losses $'000	Foreign Currency Translation Reserve $'000	Equity-settled Employee Benefits Reserve $'000	Cash Flow Hedging Reserve $'000	Total $'000
Balance at 1 August 2011	**159,377**	**(124,169)**	**(966)**	**1,474**	**(2,518)**	**33,198**
Profit for the year	-	10,436	-	-	-	10,436
Other comprehensive (loss)/gain	-	-	(220)	-	853	633
Total comprehensive income	-	10,436	(220)	-	853	11,069
Recognition of share-based payments	-	-	-	142	-	142
Issue of ordinary shares under rights issue	17,785	-	-	-	-	17,785
Issue of ordinary shares under share placement	6,842	-	-	-	-	6,842
Issue of ordinary shares for purchase acquisition	3,796	-	-	-	-	3,796
Share issue costs	(1,536)	-	-	-	-	(1,536)
Tax effect of costs	461	-	-	-	-	461
Balance at 31 July 2012	**186,725**	**(113,733)**	**(1,186)**	**1,616**	**(1,665)**	**71,757**
Payment of Dividends	-	(2,702)	-	-	-	(2,702)
Profit for the year	-	13,962	-	-	-	13,962
Other comprehensive gain	-	-	173	-	1,962	2,135
Total comprehensive income	-	13,962	173	-	1,962	16,097
Recognition of share-based payments	-	-	-	23	-	23
Issue of ordinary shares under the share placement	15,000	-	-	-	-	15,000
Issue of ordinary shares under dividend re-investment	2,702	-	-	-	-	2,702
Issue of ordinary shares for asset acquisition	586	-	-	-	-	586
Share issue costs	(736)	-	-	-	-	(736)
Tax effect of costs	220	-	-	-	-	220
Balance at 31 July 2013	**204,497**	**(102,473)**	**(1,013)**	**1,639**	**297**	**102,947**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

For personal use only

Consolidated Statement of Cash Flows for the year ended 31 July 2013

	Note	**31 July 2013 $'000**	31 July 2012 $'000
Cash Flows from Operating Activities			
Receipts from customers		**151,584**	177,580
Payments to suppliers and employees		**(140,393)**	(166,419)
Cash generated from operations		**11,191**	11,161
Income taxes paid		**(311)**	(193)
Interest and other costs of finance paid		**(5,266)**	(7,185)
Net Cash Inflow from Operating Activities	35	**(5,614)**	3,783
Cash Flows from Investing Activities			
Interest and other investment income received		**612**	281
Payments for acquisition of businesses	34(a)	**(5,133)**	(3,061)
Payments for property, plant and equipment		**(2,072)**	(1,192)
Payments for other intangible assets		**(3,422)**	(2,480)
Proceeds from sale of property, plant and equipment		**1**	39
Net Cash Outflow from Investing Activities		**(10,014)**	(6,413)
Cash Flows from Financing Activities			
Proceeds from issue of shares		**18,287**	24,603
Proceeds from borrowings		**5,000**	244
Repayment of borrowings		**(13,121)**	(20,068)
Dividends paid to owners of the Company		**(2,687)**	-
Borrowings transaction costs		**(156)**	(266)
Share issue transaction costs		**(736)**	(1,536)
Net Cash Inflow from Financing Activities		**6,587**	2,977
Net increase in Cash Held		**2,187**	347
Cash and cash equivalents at the beginning of the year		**2,257**	1,948
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(139)**	(38)
Cash and cash equivalents at the end of the year	35	**4,305**	2,257

The above statement of cash flows should be read in conjunction with the accompanying notes.

For personal use only

NOTE 1: Application of new and revised Accounting Standards

1.1 Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

The following new and revised Standards and Interpretations have been adopted in the current year and have affected the amounts reported in these financial statements.

Standards affecting presentation and disclosure

The amendments (part of AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income' introduce a new terminology for the statement of comprehensive income and income statement. Under the amendments to AASB 101, the statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and the income statement is renamed as statement of profit or loss. The amendments to AASB 101 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to AASB 101 require the items of other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

The amendments (part of AASB 2012-5 'Further Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle') requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position), when the retrospective application, restatement or reclassification has a material effect on the information of the third statement of financial position. The related notes to the third statement of financial position are not required to be disclosed.

Standards and Interpretations affecting the reported results or financial position

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reported results or financial position.

For personal use only

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standard and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards[i]	1 January 2015	31 July 2016
AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	31 July 2014
AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	31 July 2014
AASB 12 ' Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	31 July 2014
AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	31 July 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	31 July 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	31 July 2014

[i] The AASB has issued the following versions of AASB 9 and the relevant amending standards:

- AASB 9 'Financial Instruments' (December 2009), AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9', AASB 2012-6 'Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures'
- AASB 9 'Financial Instruments' (December 2010), AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)', AASB 2012-6 'Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosure'.

For annual reporting periods beginning before 1 January 2015, an entity may early adopt either AASB 9 (December 2009) or AASB 9 (December 2010) and the relevant amending standards.

For personal use only

2. Application of new and revised Accounting Standards (continued)

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	31 July 2014
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	31 July 2014
AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 January 2013	31 July 2014
AASB 2013-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	31 July 2015
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'	1 January 2013	31 July 2014
AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'	1 January 2013	31 July 2014
Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine' and AASB 2011-12 'Amendments to Australian Accounting Standards arising from Interpretation 20'	1 January 2013	31 July 2014

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
None at time of publication		

No changes in recognition or measurement accounting policies

A number of Australian Accounting Standards and Interpretations and IFRSs and IFRIC Interpretations are in issue but not yet effective for the current year end. The reported results and position of the group will not change on adoption of these pronouncements as they do not result in any changes to the group's existing accounting policies. Adoption may, however, result in changes to information currently disclosed in the financial statements. The group does not intend to adopt any of these pronouncements before their effective dates.

The application of the above standards and interpretation are not expected to have a material impact on the Group's consolidated financial statements.

For personal use only

For personal use only

NOTE 2: Significant accounting policies

Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law. The financial statements comprise the consolidated financial statements of the Group.

For the purpose of preparing the consolidated financial statements the company is a for profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 30 September 2013.

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the director's report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for derivative financial instruments that have been measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise stated.

Going concern basis

Despite a net current asset deficiency of $10,619,000 the financial statements have been prepared on a going concern basis due to the fact that of the current borrowings of $43,169,000, $30,479,000 relates to trade and debtor finance facilities that will be available to the Group until at least 31 October 2014 (Note 20).

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (referred to as "the Group" in these financial statements). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation.

(b) Income Tax

(i) Current tax

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

(ii) Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted, or substantively enacted, for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

NOTE 2: Significant accounting policies (continued)

(iii) Current and deferred tax for the period

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(iv) Tax Consolidation

The company and its wholly-owned Australian resident entities are part of a tax-consolidated Group under Australian taxation law. Funtastic Limited is the head entity in the tax-consolidated Group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated Group are recognised in the separate financial statements of the members of the tax-consolidated Group using the "separate taxpayer within Group" approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated Group, amounts are recognised as payable to or receivable by the company and each member of the Group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated Group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in Note 7 to the financial statements.

(c) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold or borrowings repaid a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

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

(d) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(e) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, discounts, rebates, and GST paid.

Revenue from the sale of goods is recognised when a Group entity has delivered products to the customer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied.

Commission revenue is recorded when the consideration is receivable based on when the goods have been dispatched to a customer by the third party.

Interest income is recognised on a time proportionate basis using the effective interest rate method.

Management fee revenue is recognised in accordance with the entitlement to fees for the management services provided and is brought to account on an accrual basis.

For personal use only

For personal use only

NOTE 2: Significant accounting policies (continued)

(f) Rental Income

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(g) Property, Plant and Equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is calculated on a straight line or diminishing value basis to write off the net cost of each item of property, plant and equipment (excluding land) over the shorter of its expected useful life and the lease term. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The cost of improvements to or on leasehold properties is amortised over the estimated useful life of the improvement to the Group.

The expected useful lives are as follows:

Plant and equipment:	2.5 to 10 years
Leasehold improvements:	5 Years

(h) Loans and receivables

Trade, loans and other receivables, are measured at amortised cost, less allowance for doubtful debts, rebates and settlement discounts, where appropriate.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is recognised in the income statement.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of stock on the basis of weighted average costs. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

(j) Trade payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year for which an invoice has been processed through the Group's payables system and the amount remains unpaid.

The amounts are unsecured and usually paid within 30 days of recognition.

(k) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognised inclusive of GST. Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the tax authority is included as a current asset or liability in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the tax authority are classified as operating cash flows.

(l) Leased Non-Current Assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of leased non-current assets (finance leases), and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised (Note 25). A lease asset and liability are established at the lower of fair value and the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense, so as to achieve a constant rate of interest on the remaining balance of the liability.

The leased assets are amortised on a straight line basis over the term of the lease, or where it is likely that the economic entity will obtain ownership of the asset, the life of the asset. Lease assets held at the reporting date are being amortised over five years.

Lease payments are allocated between interest (calculated by applying the interest rate implicit in the lease to the outstanding amount of the liability), rental expense and reduction of the liability.

Operating lease payments are charged to the profit and loss account on a straight line basis over the period of the lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

For personal use only

NOTE 2: Significant accounting policies (continued)

(m) Share-based payments

Share-based compensation benefits are provided to employees via the Funtastic Executive Share Option Plan, Employee Performance Share Rights Plan and the Employee Share Loan Scheme.

The fair value of options and performance share rights granted under the Funtastic Executive Share Option Plan, Funtastic Employee Performance Share Rights Plan and Employee Share Loan Scheme is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using an appropriate option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, total shareholder performance hurdles and the risk-free interest rate for the term of the option.

The fair value of the options, performance share rights and schemes granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet
date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options or performance share rights, the balance of the share-based payments reserve relating to those options is transferred to share capital.

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

The above policy is applied to all equity-settled share-based payments that were granted after 7 November 2003 and that vested after 1 January 2006, including the ESLS. No amount has been recognised in the financial statements in respect of the other equity-settled share-based payments.

(n) Borrowings

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(o) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include:

- interest on bank overdrafts and short-term and long-term borrowings;
- finance lease charges; and
- certain exchange differences arising from foreign currency borrowings.

(p) Employee benefits

(i) Wages and Salaries and Annual Leave

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave where it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

(ii) Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(iii) Profit sharing and bonus plans

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iv) Employee benefit on-costs

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit liabilities and costs, when the employee benefits to which they relate are recognised as liabilities.

For personal use only

NOTE 2: Significant accounting policies (continued)

(q) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards.

Changes in the fair value of contingent consideration classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3(2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 Income Taxes and AASB 119 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with AASB 2 Share-based Payment; and
- assets (or disposal Groups) that are classified as held for sale in accordance with AASB 5 Noncurrent Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

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

(r) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred. Amortisation of the Group's intangible assets is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

- Software 3-7 years
- Patents 20 years
- Trademarks 10 years
- Licensed distribution agreements 3 years

(s) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units (CGUs), or Groups of CGUs, expected to benefit from the synergies of the business combination. CGUs (or Groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

NOTE 2: Significant accounting policies (continued)

(s) Goodwill (continued)

If the recoverable amount of the CGU (or Group of CGUs) is less than the carrying amount of the CGU (or Groups of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or Groups of CGUs) and then to the other assets of the CGU (or CGUs) pro-rata on the basis of the carrying amount of each asset in the CGU (or CGUs). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in subsequent periods.

On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

(t) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward contracts comprising foreign exchange forward contracts and options; and interest rate swaps. Further details of derivative financial instruments are disclosed in Note 36 to the financial statements.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), or hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

The fair value of hedging derivatives is classified as a current asset or current liability if the remaining maturity of the hedge relationship is less than 12 months and as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than 12 months.

Cash flow hedges

The Group designates certain hedging instruments, derivatives in respect of foreign currency, as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 36 contains details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in the statement of changes in equity.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(u) Financial assets

All financial assets are recognised and derecognised on trade date where the purchase or sale of the financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as fair value through profit or loss (FVTPL) which are initially measured at fair value.

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

For personal use only

NOTE 2: Significant accounting policies (continued)

(u) Financial assets (continued)

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the statement of comprehensive income. Fair value is determined in the manner described in Note 36.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If in a subsequent period the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date of the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(v) Financial instruments issued by the Group

- *Equity instruments*

Equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. Transaction costs arising on the issue of equity instruments are recognised directly in contributed equity.

- *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner set out in Note 36.

- *Other financial liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(w) Provisions

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

The amount recognised as a provision is a best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligations, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

(x) Onerous contracts

The Group enters into royalty contracts with key suppliers. The terms of the royalty agreements require minimum levels of royalty payments to be offset against the minimum guarantees paid at the start of the contract. An onerous contract is deemed to exist for the Group if, after calculating the net contribution relating to the products sold under the specific contract, there is a shortfall between the minimum guarantee and the actual royalty derived (or forecast to arrive in future periods) from the reported sales. Net contribution is calculated after taking into account net sales revenue, cost of goods sold, applicable royalties and direct selling costs. If the royalty shortfall cannot be recovered from the resulting net contribution a provision for onerous contracts is made to the statement of comprehensive income.

For personal use only

NOTE 2: Significant accounting policies (continued)

(y) Impairment of tangible and intangible assets (other than goodwill)

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less cost 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 which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

For personal use only

NOTE 3: Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- *Estimated impairment of goodwill and other non-current assets*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(s). The recoverable amount of each cash-generating unit has been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to Note 15 for details of these assumptions.

- *Recoverability of prepaid and committed royalty and license agreements*

In order to secure product distribution rights the Group is required to prepay for royalties relating to licensed products. The Group reviews the recoverability of prepaid royalty and license agreements (Note 11) on an annual basis. The Group takes into account current and projected market sell through in assessing the recoverability of royalty commitments.

- *Settlement of licence audits*

Product licence agreements contain audit rights for licensors. At year end in respect of licensor audits the Group has provided for the best estimate of amounts payable. The final amounts payable will be subject to negotiation with the licensor and may differ to the amounts provided.

- *Recoverability of inventory*

As outlined in Note 2(i) inventories are stated at the lower of cost and net realisable value (NRV), where NRV represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale. The Group periodically assesses whether the NRV of its inventories is reasonable in light of changing market conditions, specifically the recent softening of the retail industry. Whilst the Group has provided to recognise the best estimate for the amount for which its inventory will be realised, the final amounts will be subject to the prevailing market conditions and may differ from the amounts provided.

- *Taxation losses recognised as asset*

The Group has recognised deferred tax in respect to revenue tax losses of approximately 2 years future profits based on the expected future taxable income. The final amount recoverable will depend on the losses being available under the 'continuity of ownership test' and the Group achieving this future taxable income. Refer to Note 7 for details of tax losses taken up as at 31 July 2013.

NOTE 4: Segment information

Under the requirements of AASB 8 Operating Segments, information reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of performance is more specifically focused on the following categories of products:

- Funtastic Australia (previously Toys and Lifestyle Merchandise)
- Funtastic Brands (previously International)
- Madman Entertainment (previously Entertainment)

For personal use only

NOTE 4: Segment information (continued)

The Funtastic Australia reportable segment distributes licensed toys, sporting equipment, nursery equipment and confectionary. The Funtastic Brands reportable segment designs and sources unique product offerings for worldwide distribution. The Madman Entertainment reportable segment is a theatrical rights, management and home entertainment distributor .

The following is an analysis of the Group's revenue and results by reportable operating segment for the financial year/period under review:

	Revenue		Segment profit/(loss)	
	Year ended 30 July 2013 $'000	Year ended 30 July 2012 $'000	**Year ended 30 July 2013 $'000**	Year ended 30 July 2012 $'000
Continuing operations				
Funtastic Australia	**88,594**	101,279	**15,073**	13,618
Funtastic Brands	**25,433**	14,721	**4,160**	1,889
Madman Entertainment	**50,807**	51,039	**8,208**	9,866
	164,834	167,039	**27,441**	25,373
Central administration	**-**	-	**(6,737)**	(5,175)
Finance costs	**-**	-	**(5,852)**	(7,410)
Depreciation and amortisation expenses	**-**	-	**(4,095)**	(2,958)
Other revenue	**1,711**	3,654	**-**	**-**
Gain on early settlement of deferred acquisition consideration	**-**	-	3,272	-
Continuing segment revenue and profit before income tax	**166,545**	170,693	**14,029**	9,830
Income tax (expense)/benefit	**-**	-	**(67)**	606
Consolidated segment revenue and profit after tax for the year	**166,545**	170,693	**13,962**	10,436

The revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period.

Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, share of profits of associates, investment revenue and finance costs, income tax expense, and gains or losses on disposal of associates and discontinued operations. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

For personal use only

NOTE 4: Segment information (continued)

Geographical Information

The Group operates in three principal geographical areas – Australia; New Zealand; and Hong Kong. The Group's revenue from external customers and information by geographical location is as follows:

	Revenue from External Customers	
	Year ended 31 July 2013 $'000	Year ended 31 July 2012 $'000
Australia	**137,676**	152,379
New Zealand	**3,436**	3,593
Hong Kong	**25,433**	14,721
	166,545	170,693

Information about major customers

Included in revenues of Funtastic Australia of $88,594,000 (2012: $101,279,000), are revenues of approximately $75,284,000 (2012: $84,512,000), which arose from sales to the segment's four largest customers.

Included in revenues of Funtastic Brands of $25,433,000 (2012: $14,721,000) are revenues of approximately $18,693,000 (2012: $11,563,000) which arose from sale to the segment's four largest customers.

Included in revenues of Madman Entertainment of $50,807,000 (2012: $51,039,000) are revenues of approximately $37,142,000 (2012: $35,136,000) which arose from sales to the segment's four largest customers.

NOTE 5: Revenue

The following is an analysis of the Group's revenue for the year from continuing operations.

	31 July 2013 $'000	31 July 2012 $'000
Revenue from the sale of goods		
Gross revenue	**185,727**	190,061
Less settlement discounts and rebates	**(20,893)**	(23,022)
	164,834	167,039
Commissions received	**1,276**	3,175
Other	**435**	479
	1,711	3,654
	166,545	170,693

For personal use only

NOTE 6: Profit for the year

Profit for the year from continuing operations has been arrived at after charging (crediting):

Continuing Operations

	Note	**Year ended 31 July 2013 $'000**	Year ended 31 July 2012 $'000
Investment Income			
Interest from bank deposits		**21**	62
Rental income		**591**	219
		612	281
Impairment losses on financial assets			
Impairment loss recognised on trade receivables	9	**530**	462
Depreciation and amortisation expense			
Depreciation of plant & equipment	14	**744**	851
Depreciation of leasehold improvements	14	**301**	323
Amortisation of other intangible assets	16	**2,530**	1,530
Amortisation of product development costs / trademarks		**520**	254
Total depreciation and amortisation expense		**4,095**	2,958
Research and development costs expensed as incurred		**645**	485
Employee benefits expense			
Post-employment benefits:			
Defined contribution plans		**1,262**	1,242
Share-based payments:			
Equity-settled share-based payments		**23**	142
Termination benefits		**131**	576
Other employee benefits		**17,311**	17,804
Total employee benefits expense		**18,727**	19,764

For personal use only

NOTE 7: Income tax

	Year ended 31 July 2013 $'000	Year ended 31 July 2012 $'000
(a) Income tax expense		
Tax expense comprises:		
Current tax expense in respect of the current year	**165**	2,105
Adjustments recognised in the current year in relation to the current tax expense of prior years	**(621)**	267
	(456)	2,372
Deferred tax expense comprises:		
Deferred tax benefit recognised on previously unrecognised and unused tax losses	**(2,658)**	(5,867)
Deferred tax expense relating to the origination and reversal of temporary differences	**4,222**	1,019
Adjustments recognised in the current year in relation to the deferred tax of prior years	**(351)**	1,504
Deferred tax reclassified from equity to profit or loss	**(690)**	366
Total tax charge/(benefit) relating to continuing operations	**67**	(606)
(b) Income Tax recognised in profit or loss		
The expense for the year can be reconciled to the accounting profit as follows:		
Profit from continuing operations	**14,029**	9,830
Tax expense at the Australian tax rate of 30%	**4,209**	2,949
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Expenses that are not deductible in determining taxable loss	**585**	64
Effect of previously unrecognised and unused tax losses	**(2,314)**	(4,320)
Effect on previously unrecognised and unused capital losses	**(981)**	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(79)**	(225)
Other	**(381)**	(578)
	1,039	(2,110)
Adjustments recognised in the current year in relation to the deferred tax of prior years	**(972)**	1,504
Income tax expense/(benefit) recognised in profit or loss	**67**	(606)

For personal use only

NOTE 7: Income tax (continued)

	Year ended 31 July 2013 $'000	Year ended 31 July 2012 $'000
(c) Amounts recognised directly in equity		
Deferred Tax (Liability)/Asset:		
Financial instruments treated as cash flow hedges	**(207)**	713
Relating to share issue expenses deductable over 5 years	**509**	352
	302	1,065
(d) Current tax balances		
Current tax assets and liabilities		
Income tax receivable from /(payable) to tax office		
Other – overseas subsidiaries	**139**	(640)
(e) Deferred tax balances		
Deferred tax assets comprises:		
Revenue tax losses	**10,161**	8,636
Temporary differences	**2,715**	4,752
	12,876	13,388
Deferred tax liability comprises:		
Temporary differences	**(6,300)**	5,599
Net deferred tax asset	**6,576**	7,789
Deferred tax assets/(liabilities) arise from the following:		
Provisions – receivables	**138**	410
Provisions – employee benefits	**481**	450
Provisions – restructuring	**260**	390
Accruals	**103**	237
Prepaid license agreements	**-**	233
Prepaid royalties	**(5,883)**	(4,008)
Revenue tax losses	**10,161**	8,636
Other provisions	**997**	1,656
Licenses	**-**	(1,587)
Foreign exchange	**(207)**	311
Cash flow hedges	**(207)**	713
Section 40 -880 deductions (Capital raising)	**509**	352
Other	**224**	(4)
	6,576	7,789

For personal use only

NOTE 7: Income tax (continued)

Tax consolidation

Relevance of tax consolidation to the Group

The Company and its wholly-owned Australian resident entities formed a tax-consolidated Group with effect from 1 January 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated Group is Funtastic Limited. The members of the tax-consolidated Group are identified in Note 33.

Nature of tax funding arrangement and tax sharing agreement

Entities within the tax-consolidated Group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Funtastic Limited and each of the entities in the tax-consolidated Group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to the other entities in the tax-consolidated Group.

The tax sharing agreement entered into between members of the tax-consolidated Group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax-consolidated Group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax-consolidated Group is limited to the amount payable to the head entity under the tax funding arrangement.

Tax Losses

As at 31 July 2013 the Australian Group has carried forward revenue tax losses of approximately $47,655,000 (2012: $54,697,000). As at 31 July 2013 a deferred tax asset of $10,292,000 (31 July 2012: $8,636,000) has been booked relating to revenue tax losses of $33,873,000 (31 July 2012: $25,012). Following the assessment of the probability of recovery, having considered future taxable income and current tax legislation in respect to carrying forward revenue tax losses, the balance of tax losses available at 31 July 2013 of $13,782,000 has not been booked as a deferred tax asset in these financial statements.

NOTE 8: Finance Costs

	Year ended 31 July 2013 $'000	Year ended 31 July 2012 $'000
Continuing operations		
Interest on bank overdrafts and loans	**5,484**	6,702
Fair value losses on interest rate swaps designated as cash flow hedges transferred from equity	**368**	708
	5,852	7,410

NOTE 9: Current assets – Trade and other receivables

	31 July 2013 $'000	31 July 2012 $'000
Trade receivables[(i)]	**42,927**	44,841
Allowance for doubtful debts	**(461)**	(595)
Allowance for credit notes, rebates and settlement discounts	**(7,855)**	(7,126)
	34,611	37,120
Other receivables	**1,413**	597
	36,024	37,717

[(i)]The average credit period on sales of goods is 72 days (2012: 77 days). No interest is charged on the trade receivables.

For personal use only

NOTE 9: Current assets – Trade and other receivables (continued)

The Group has provided for any receivable considered uncollectible and therefore deemed to be not recoverable.

Included in the Group's trade receivable balance are debtors with a carrying amount of $3,482,386 (2012: $13,850,210) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the Group believes the amounts are recoverable.

	31 July 2013 $'000	31 July 2012 $'000
Age of receivables that are past due but not impaired		
30-60 days	**1,840**	12,542
60-90 days	**-**	198
90-120 days	**1,642**	1,110
Total	**3,482**	13,850
Average age (days)	**36**	41

The Group does not hold any collateral over these balances.

The Group reviews trade debtors on an ongoing basis and makes a provision against specific debtors based on management's assessment of the debtors' ability to settle the debt.

The Group reviews the provision for credit notes, rebates and settlement discounts on an ongoing basis and makes allowances for individual customers based on historical sales, trading terms and expected returns, settlement discounts and rebates.

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of $nil (2012: $43,338) which have been placed under liquidation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances.

Movement in Allowance for doubtful debts, credit notes, rebates and settlement discounts

	Doubtful debts $'000	**Rebates, credit notes & settlement discounts $'000**	**Total $'000**
31 July 2013			
Balance at beginning of year	(595)	(7,126)	(7,721)
Utilised	664	6,282	6,979
Reversed	-	183	183
Provisions raised	(530)	(7,194)	(7,757)
Balance at end of the year	**(461)**	**(7,855)**	**(8,316)**
31 July 2012			
Balance at beginning of year	(1,356)	(6,676)	(8,032)
Utilised	987	5,617	6,604
Reversed	236	215	451
Provisions raised	(462)	(6,282)	(6,744)
Balance at end of the year	**(595)**	**(7,126)**	**(7,721)**

For personal use only

NOTE 9: Current assets – Trade and other receivables (continued)

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

NOTE 10: Current assets – Inventories

	31 July 2013 $'000	31 July 2012 $'000
Finished goods	**23,964**	14,668

The cost of inventories recognised as an expense during the year in respect of continuing operations was $78,978,796 (2012: $86,090,436).

NOTE 11: Other Assets

	Note	**31 July 2013 $'000**	31 July 2012 $'000
Current other assets			
Prepaid royalties		**6,580**	6,536
Prepayments		**3,512**	2,266
Other		**270**	242
		10,362	9,044
Non-current other assets			
Product development costs		**660**	649
Trademarks		**198**	211
Prepaid royalties		**14,907**	12,035
		15,765	12,895

NOTE 12: Current tax assets / (liabilities)

		31 July 2013 $'000	31 July 2012 $'000
Tax recoverable – overseas subsidiaries		**139**	-
Tax payable – overseas subsidiaries		**-**	(640)
Current tax assets/(liabilities)	7	**139**	(640)

NOTE 13: Other financial assets

	Note	**31 July 2013 $'000**	31 July 2012 $'000
Current			
Derivatives that are designated and effective as hedging instruments carried at fair value: Foreign Currency forward contracts		**1,352**	-
Consideration receivable on sale of business		**200**	100
		1,552	100

For personal use only

NOTE 14: Non-current assets – Property, plant and equipment

	31 July 2013 $'000	31 July 2012 $'000
Plant and equipment – at cost	**4,383**	3,316
Less: accumulated depreciation	**(2,962)**	(2,580)
	1,421	736
Leasehold improvements – at cost	**2,207**	2,500
Less: accumulated depreciation	**(709)**	(794)
	1,498	1,706
	2,919	2,442

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in Note 6 to the financial statements.

For personal use only

NOTE 14: Non-current assets – Property, plant and equipment (continued)

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

31 July 2013	Plant & Equipment $'000	Leasehold Improvements $'000	Total $'000
Cost			
Opening Balance	3,316	2,500	5,816
Additions	1,423	92	1,515
Disposals	(382)	(407)	(789)
Net foreign exchange difference	26	21	47
Closing Balance	**4,383**	**2,206**	**6,589**
Accumulated Deprecation			
Opening Balance	(2,580)	(794)	(3,374)
Disposals	382	387	769
Depreciation	(744)	(301)	(1,045)
Net foreign exchange difference	(20)	-	(20)
Closing Balance	**(2,962)**	**(708)**	**(3,670)**
Written Down Value			
Opening Balance	736	1,706	2,442
Closing Balance	**1,421**	**1,498**	**2,919**

31 July 2012			
Cost			
Opening Balance	7,312	2,482	9,794
Additions	628	796	1,424
Disposals	(4,639)	(778)	(5,417)
Net foreign exchange difference	15	-	15
Closing Balance	**3,316**	**2,500**	**5,816**
Accumulated Deprecation			
Opening Balance	(6,167)	(998)	(7,165)
Disposals	4,462	527	4,989
Depreciation	(851)	(323)	(1,174)
Net foreign exchange difference	(24)	-	(24)
Closing Balance	**(2,580)**	**(794)**	**(3,374)**
Written Down Value			
Opening Balance	1,145	1,484	2,629
Closing Balance	**736**	**1,706**	**2,442**

For personal use only

NOTE 15: Non-current assets – Goodwill

	Note	31 July 2013 $'000	31 July 2012 $'000
Gross carrying amount			
Balance at the beginning of financial year		**78,845**	68,054
Additional goodwill recognised from business combinations occurring during the year	34	**-**	9,011
Additional amounts recognised from past business combinations – earnout obligations[i]		**-**	1,780
Balance at the end of financial year		**78,845**	78,845
Net book value			
Balance at the beginning of financial year		**78,845**	68,054
Balance at the end of financial year		**78,845**	78,845

[i] This 2009 acquisition is treated under the transitional provisions of AASB 3 (2009)

Allocation of goodwill to cash generating units

Goodwill is allocated to the Group's cash generating units (CGUs). The carrying amount of goodwill allocated to CGUs is as follows:

Cash generating unit[i]	31 July 2013 $'000	31 July 2012 $'000
Funtastic Australia	**44,769**	44,769
Funtastic Brands	**5,226**	5,226
Madman Entertainment	**28,850**	28,850
Total	**78,845**	78,845

[i] AASB 136 requires acquired goodwill to be allocated to the Group's CGUs, or to a group of its CGUs, that are expected to benefit from the synergies of the combination. If CGUs are subsequently revised, operations disposed of or there is a change in the CGUs which are expected to benefit from the acquired synergies, AASB 136 requires goodwill to be reallocated to the units affected.

1. Funtastic Australia

The recoverable amount of the Funtastic Australia CGU is based on a value in use calculation which uses cash flow projections based on financial budgets approved by management, covering a five year period and using a discount rate of 17.8% (2012: 15.3%) which represents the WACC for the CGU. The discount rate is pre-tax and represents the Group's WACC adjusted upwards to reflect the risks specific to the Funtastic Australia CGU.

Cash flow projections during the budget period are based on normalised sales and gross margins by the CGU and an average growth rate in sales of 4.0% (2012: 2.5%). Cash flows beyond the five year period have been extrapolated using a growth rate of 0.0%, which represents a conservative estimate of long term growth in the business and is significantly lower than the average of the historical consumer price index published by the Reserve Bank of Australia. The growth rates used in the model do not exceed the long term average growth rate for the market in which the CGU's business operates.

The Funtastic Australia CGU includes other intangibles of $3,254,000 (2012: $7,736,000). These are brand names, licenses, distribution agreements, supplier relationships and computer software. The reduction in intangibles allocated to the Funtastic Australia CGU relates to a reallocation to the Brands CGU based on where the cash flows are expected to be generated, which in turn is defined by the Company strategy to own and operate its own brands such as Pillow Pets and Chill Factor.

Management believes that any reasonable possible change in key assumptions on which the recoverable amount is based would not cause the CGU's carrying amount to materially exceed its recoverable amount.

For personal use only

NOTE 15: Non-current assets – Goodwill (continued)

2. Funtastic Brands

The recoverable amount of the Funtastic Brands CGU is based on a value in use calculation which uses cash flow projections based on financial budgets approved by management, covering a five year period and using a discount rate of 15.8% (2012: 14.3%) which represents the WACC for the CGU. The discount rate is pre-tax and represents the Group's WACC.

Cash flow projections during the budget period are based on normalised gross margins by the CGU and an average growth rate in sales of 10.0% (2012: 7.5%). Cash flows beyond the five year period have been extrapolated using a growth rate of 0.0%, which represents a conservative estimate of long term growth in the business and is significantly lower than the average of the historical consumer price index published by the Reserve Bank of Australia. The growth rates used in the model do not exceed the long term average growth rate for the market in which the CGU's business operates. The Funtastic Brands CGU includes other intangibles of $15,642,000 (2012: $3,270,000). These are brand names, licenses, distribution agreements, supplier relationships and computer software.

Management believes that any reasonable possible change in key assumptions on which the recoverable amount is based would not cause the CGU's carrying amount to materially exceed its revised recoverable amount.

3. Madman Entertainment (previously Entertainment)

The recoverable amount of the Madman Entertainment CGU is based on a value in use calculation which uses cash flow projections based on financial budgets approved by management, covering a five year period and using a discount rate of 15.8% (2012: 13.3%) which represents the WACC for the CGU. The discount rate is pre-tax and represents the Group's WACC adjusted downwards to reflect the risks specific to the Madman Entertainment CGU.

Cash flow projections during the budget period are based on normalised gross margins by the CGU and an average decline in sales of 1.7% (2012: 2.5% decline). Cash flows beyond the first three years have been extrapolated using a growth rate of 0.0%, which represents a conservative estimate of long term growth in the business and is significantly lower than the average of the historical consumer price index published by the Reserve Bank of Australia. The growth rates used in the model do not exceed the long term average growth rate for the market in which the CGU's business operates. The Madman Entertainment CGU includes other intangibles of $706,000 (2012: nil). These are Madman Production costs.

Management believes that any reasonable possible change in key assumptions on which the recoverable amount is based would not cause the CGU's carrying amount to materially exceed its revised recoverable amount.

Key Assumptions

The key assumptions used in the value in use calculations for the cash-generating units are as follows:

Weighted Average Cost of Capital	Based on externally observable data on comparable companies adjusted for the Group's risk profile and share price volatility and based on the cash flows of the relevant CGU's.
Budgeted Gross Margin	Based on past history and management experience.
Sales Growth	Based on management future expectation taking into account current economic conditions.

For personal use only

NOTE 16: Non-current assets – Other intangibles

	31 Jul 2013 $'000	31 Jul 2012 $'000
Brand names[i]	**1,015**	1,015
Software costs	**5,967**	4,941
Accumulated amortisation and impairment[ii]	**(3,814)**	(3,594)
	2,153	1,347
Chill Factor – Trademarks and patents	**11,341**	-
Accumulated amortisation and impairment [ii]	**-**	-
	11,341	-
Licenses, distribution agreements & supplier relationships	**9,627**	8,814
Accumulated amortisation and impairment[ii]	**(3,087)**	(1,053)
	6,540	7,761
	21,049	10,123

	Software[iii] $'000	Brand Names[i] $'000	Chill Factor Trademarks and Patents[iv] $'000	Licenses, distribution agreements and supplier relationships $'000	Total $'000
Cost					
Balance at 1 August 2011	4,902	1,015	-	1,895	7,812
Additions	85	-	-	8,277	8,362
Disposals	(46)	-	-	(1,358)	(1,404)
Balance at 31 July 2012	**4,941**	**1,015**	**-**	**8,814**	**14,770**
Additions	1,303	-	11,341	813	13,457
Disposals	(277)	-	-	-	(277)
Balance at 31 July 2013	**5,967**	**1,015**	**11,341**	**9,627**	**27,950**
Accumulated amortisation and impairment					
Balance at 1 August 2011	(3,244)	-	-	(1,233)	(4,477)
Amortisation expense	(386)	-	-	(1,144)	(1,530)
Disposals	36	-	-	1,324	1,360
Balance at 31 July 2012	**(3,594)**	**-**	**-**	**(1,053)**	**(4,647)**
Amortisation expense	(496)	-	-	(2,034)	(2,530)
Disposals	276	-	-	-	276
Balance at 31 July 2013	**(3,814)**	**-**	**-**	**(3,087)**	**(6,901)**
Net book value					
As at 31 July 2012	1,347	1,015	-	7,761	10,123
As at 31 July 2013	**2,153**	**1,015**	**11,341**	**6,540**	**21,049**

(i) Brands acquired and separately identified as part of the acquisition of Mike & Jack confectionery in May 2006. The Group intends to continue use of the brands for an indefinite period and are therefore not amortised but are subject to an annual test for impairment. The key assumptions used in the value in use calculations for Brand names are as follows: Average Sales Growth Rate 4.0% (2012: 2.5%) and the Discount Rate17.8% (2012: 15.3%).

(ii) The amortisation expense has been included in the line item 'amortisation' in the statement of profit or loss and other comprehensive income. Useful lives used in the calculation of amortisation of computer software costs are between 3 and 7 years. Distribution agreements have useful lives in the range of 1-3 years.

(iii) In the financial year ended 31 July 2013 production costs incurred from February 2013, by Madman Entertainment were re-assessed in accordance with the requirements of AASB138 as intangible assets and capitalised. These costs are amortised over useful life assessed at 3 years, being the expected life of the product.

(iv) Chill Factor trademarks and patents were acquired on 31 July 2013. The useful lives have been assessed as being between 10-15 years for trademarks and 20 years for patents. As at 31 July 2013 an amount of $10,475,000 was due to the vendor in the form of cash $5,475,000 and scrip $5,000,000. (Note 23).

For personal use only

NOTE 17: Non-current assets – Other financial assets

	Note	31 July 2013 $'000	31 July 2012 $'000
Consideration receivable on sale of business		-	200

NOTE 18: Assets pledged as security

In accordance with the security arrangements of liabilities as disclosed in Note 21 to the financial statements, all assets of the Group, except goodwill and deferred tax assets, have been pledged as security. The Group does not have the right to sell or re-pledge the assets.

NOTE 19: Current Liabilities – Trade payables

	31 July 2013 $'000	31 July 2012 $'000
Trade payables[(i)]	**19,968**	17,259

[(i)] The average credit period on purchases of certain goods from international suppliers ranges from four weeks to four months. There is no interest charged on trade payables. The Group has financial risk management policies in place to ensure that, as often as possible, all payables are paid within a reasonable timeframe.

For personal use only

NOTE 20: Borrowings

Secured – at amortised cost	Note	31 July 2013 $'000	31 July 2012 $'000
Current			
Bill finance		**12,729**	10,000
Debtors finance		**15,238**	21,277
Finance lease liabilities	25	**46**	49
Trade finance		**15,241**	15,003
Less: capitalised transaction costs		**(85)**	(309)
Total Current		**43,169**	46,020
Non-current			
Bill finance		**9,600**	14,600
Finance lease liabilities	25	**129**	175
		9,729	14,775
Less: capitalised transaction costs		**(21)**	(25)
Total Non-current		**9,708**	14,750
Current borrowings		**43,169**	46,020
Non-current borrowings		**9,708**	14,750
		52,877	60,770

The Trade finance, Bill finance and Debtors finance facilities are secured by a first ranking registered mortgage debenture over all assets and undertakings of the Group.

Whilst on 31 January 2013, the overall facilities were extended to 31 October 2014, and therefore are not due to be repaid until the financial year ending 31 July 2015, due to the nature of the debtor and trade finance facilities, amounts are continually repaid and redrawn based on normal trade debtor and trade creditor terms. Amounts due at 31 July 2013 in respect to these facilities have been disclosed as current in these financial statements.

Financing Arrangements

During the year ended 31 July 2013, the Group complied with its externally imposed financing covenants.

During the period the Group's senior lender, National Australia Bank, agreed to vary the terms of the existing facilities agreement to permit the re-introduction of dividend payments in the 2012/13 financial year, provided certain financial conditions are met, as well as a slight variation in the timing of the 2013 borrowing payments. During January 2013 the Group negotiated an extension to the existing facilities to 31 October 2014.

The current interest rates are 8.49% on the debtors finance facility, 7.67% on the trade finance facility and 6.41% on the bill finance facility (2012: 8.77%, 8.28% and 7.13% respectively).

Financing Arrangements – Controlled Entities

All facilities are secured by a first ranking mortgage debenture of the Group. Refer to Note 36 Financial Instruments for further details regarding the lending covenants associated with the borrowings.

For personal use only

NOTE 21: Provisions

	Note	31 July 2013 $'000	31 July 2012 $'000
Current			
Employee benefits[i]		**1,173**	1,900
Restructuring provision[ii]	32	**236**	300
Licensor audits[iii]		**421**	1,546
Total Current		**1,830**	3,746
Non-current			
Employee benefits[i]		**462**	402
Restructuring provision[ii]	32	**631**	999
Total Non-current		**1,093**	1,401
		2,923	5,147

	Restructuring (ii) $'000	Licensor Audits (iii) $'000	Total $'000
Balance at 31 July 2012	1,299	1,546	2,845
Additional provisions recognised	-	-	-
Reductions resulting from re-measurement or settlement without cost	(91)	(1,125)	(1,216)
Reductions arising from payments/other sacrifices of future economic benefits	(341)	-	(341)
Balance at 31 July 2013	**867**	**421**	**1,288**

(i) The provision for employee benefits represents annual leave and long service leave entitlements accrued and compensation claims made by employees.

(ii) The remaining restructuring provision represents the present value of the directors' best estimate of the future outflow of economic benefits that will be required to satisfy obligations in respect to onerous lease contracts (Note 32)

(iii) Product license agreements contain audit rights for licensors. At year end, in respect of licensor audits the Group has provided for the best estimate of amounts payable. The final amounts payable will be subject to negotiation with the licensor and may differ to the amounts provided in the annual report.

NOTE 22: Deferred purchase consideration

	Note	31 July 2013 $'000	31 July 2012 $'000
Current			
Deferred purchase consideration - business acquisition (KPM)	34	**924**	3,502
Non-Current			
Deferred purchase consideration - business acquisition (KPM)	34	**-**	6,015
		924	9,517

The purchase consideration recognised by the Group as at 31 July 2012 of $9,517,000 was renegotiated during the financial year ended 31 July 2013, resulting in a profit recognised in the profit and loss for the year ended 31 July 2013 of $3,272,000.

For personal use only

NOTE 23: Other Liabilities

	Note	31 July 2013 $'000	31 July 2012 $'000
Current			
Accrued royalties		**3,925**	3,658
GST payable		**132**	115
Lease incentives	32	**187**	33
Payroll accruals		**309**	747
Other creditors	16	**10,517**	-
Other accrued expenses		**5,339**	3,142
		20,411	7,695
Non-current			
Lease incentives	32	**787**	917
		787	917

NOTE 24: Other financial liabilities

	Note	31 July 2013 $'000	31 July 2012 $'000
Current			
Derivatives			
Derivatives that are designated and effective as hedging instruments carried at fair value:			
Foreign currency forward contracts		**-**	1,329
Interest rate swaps		**663**	1,049
	36	**663**	2,378
Disclosed in the financial statements as:			
Current other financial liabilities		**663**	2,378

NOTE 25: Leasing arrangements

The Group leases certain of its equipment under finance leases. The average lease term is 5 years. Of the three leases the Group has an option to purchase the equipment at the end of the lease terms in respect to one of the contracts. The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 0.0% to 8.9% (2012: 0.0% to 8.9%) per annum.

For personal use only

NOTE 25: Leasing arrangements (continued)

Finance lease liabilities

	Minimum Lease payments		Present value of minimum lease payments	
	31 July 2013 $'000	**31 July 2012 $'000**	**31 July 2013 $'000**	**31 July 2012 $'000**
Not later than one year	50	50	46	49
Later than one year and not later than five years	142	216	129	175
Later than five years	-	-	-	-
	192	266	175	224
Less future finance charges	(17)	(42)	-	-
Present value of minimum lease payments	175	224	175	224

	Note	31 July 2013 $'000	31 July 2012 $'000
Included in the consolidated financial statements			
Current borrowings	20	46	49
Non-Current borrowings	20	129	175
		175	224

NOTE 26: Issued Capital

Included in the consolidated financial statements	**31 July 2013 $'000**	31 July 2012 $'000
Share Capital		
642,169,723 fully paid ordinary shares (2012: 537,799,605)	**204,497**	186,725

Included in the company financial statements	**31 July 2013 $'000**	31 July 2012 $'000
Share Capital		
642,169,723 fully paid ordinary shares (2012: 537,799,605)	**204,497**	186,725
2,400,000 treasury shares (2012: nil)[i]	**384**	-
	204,881	186,725

[i]Shares issued under the Employee Share Loan Scheme through the Employee Share Plan Rules

For personal use only

NOTE 26: Issued Capital (continued)

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

	31 July 2013		31 July 2012	
	Number of Shares '000	$'000	Number of Shares '000	$'000
Movements in Ordinary Share Capital included in the consolidated financial statements				
Opening balance	537,800	186,725	340,998	159,377
Purchase consideration - NSR acquisition	-	-	20,000	3,094
Purchase consideration for acquisition of the Pillow Pets business	-	-	6,959	693
Institutional Placement (June 2012)	-	(25)	139,117	19,466
Retail Entitlement offer (July 2012)[i]	-	-	30,726	4,095
Slushy Magic US/Canada distribution rights (5 April 2013)	2,577	586	-	-
Dividend Reinvestment Plan (DRP) (May 2013)	4,144	824	-	-
DRP Underwriting (May 2013)	9,414	1,800	-	-
Institutional Placement (July 2013)	88,235	14,587	-	-
Closing balance	**642,170**	**204,497**	**537,800**	**186,725**

[i]Shares in respect of the Retail Entitlement were allotted on 1 August 2012

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

Dividend Reinvestment Plan

The company has a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than being paid in cash.

Share Purchase Plan

There were no Share Purchase Plans offered to shareholders during the current year.

Share Issue on Acquisition of Business Assets

During the year the Company issued 2,577,000 shares at the prevailing market value consideration of 15.5c on 5 April 2013 in respect of the acquisition of the Slushy Magic US/Canada distribution rights

Options

Executive Share Options

At 31 July 2013, executives held options over 7,600,000 ordinary shares of the Company, of which 200,000 expired on 2 September 2013, 4,000,000 will expire on 10 August 2014 and 1,000,000 will expire on 1 April 2015 and the remaining 2,400,000 do not have an expiry date. At 31 July 2012, executives held options over 5,200,000 ordinary shares of the Company, of which 200,000 expired on 2 September 2013, 4,000,000 will expire on 10 August 2014 and 1,000,000 will expire on 1 April 2015.

Share options granted under the Executive Share Option Plan (ESOP) carry no rights to dividends and no voting rights. Further details of the ESOP, including details of shares issued under the scheme, are set out in Note 37.

Ordinary Options - MGA Entertainment (HK) Limited

On 19 January 2004, Funtastic issued 1,500,000 Ordinary Options pursuant to a distribution agreement with MGA Entertainment (HK) Limited. The agreement was in respect of the exclusive distribution of Bratz toys, electronics, sporting goods and related products for the Australia and New Zealand region.

For personal use only

NOTE 26: Issued Capital (continued)

The options vested on 31 July 2004 and may be exercised at an exercise price of $1.50 at any time up until the expiry date of 19 January 2014.

Employee Share Loan Schemes

On 24 June 2013, Funtastic granted 2,400,000 options over ordinary shares of the Company under the Employee Share Loan Scheme (ESLS). The options expire on the date a participant ceases employment with Funtastic.

The ESLS Trust was established for the purpose of purchasing and holding shares on behalf of participants. The trust is consolidated into the group financial statements at each report date. Upon acceptance of the ESLS invitation, 2,400,000 shares were granted to participants and held by the trust to satisfy Funtastic's obligation under the ESLS. The share issue in respect of the ESLS shares is represented by treasury shares deducted from equity.

Further details of the ESLS are set out in Note 37.

Rights

Employee Performance Share Rights

At 31 July 2013 and 31 July 2012, employees held options over 10,000 ordinary shares of the Company which expired on 2 September 2013.

Share options granted under the Employee Performance Share Rights Plan (EPSR) carry no rights to dividends and no voting rights. Further details of the EPSR, including details of shares issued under the scheme, are set out in Note 37.

NOTE 27: Accumulated losses

	31 July 2013 $'000	31 July 2012 $'000
Opening balance	**(113,733)**	(124,169)
Net profit after tax for the year	**13,962**	10,436
Dividends paid	**(2,702)**	-
Balance at the end of financial year	**(102,473)**	(113,733)

NOTE 28: Reserves

	31 July 2013 $'000	31 July 2012 $'000
Foreign currency translation reserve	**(1,013)**	(1,186)
Equity-settled benefits reserve	**1,639**	1,616
Cash flow hedging reserve	**297**	(1,665)
	923	(1,235)

Foreign Currency translation reserve

	31 July 2013 $'000	31 July 2012 $'000
Balance at the beginning of the period	**(1,186)**	(966)
Translation of foreign operations	**173**	(220)
	(1,013)	(1,186)

Exchange differences relating to the translation from United States Dollars, New Zealand Dollars and Hong Kong Dollars, being the functional currencies of the Group's foreign controlled entities in USA (not a principal place of business), New Zealand and Hong Kong, into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.

For personal use only

NOTE 28: Reserves (continued)

Equity settled benefit reserve

	31 July 2013 $'000	31 July 2012 $'000
Balance at the beginning of the period	**1,616**	1,474
Share based payments	**23**	142
	1,639	1,616

The equity-settled benefit reserve arises on the grant of share options and performance share rights to executives and other beneficiaries under the Executive Share Option, Employee Performance Share Rights Plans and Employee Share Loan Scheme. Amounts are transferred out of the reserve and into issued capital when the options or rights are exercised. Further information about share-based payments is made in Note 37 to the financial statements.

Cash flow hedging reserve	**31 July 2013 $'000**	31 July 2012 $'000
Balance at the beginning of the period	**(1,665)**	(2,518)
Gain/(Loss) recognised:		
Forward exchange contracts	**701**	3,391
Interest rate swaps	**695**	(904)
Transferred to profit or loss[i]		
Forward exchange contracts	**(394)**	(23)
Interest rate swaps	**368**	708
Transferred to initial carrying amount of hedged item:		
Forward exchange contracts	**1,581**	(1,953)
Interest rate swaps	**(624)**	-
Deferred tax liability arising on hedges	**(365)**	(366)
	297	(1,665)

[i]Gains and losses transferred from equity into profit or loss during the period are included in the following line items on the face of the income assessment.

	31 July 2013 $	31 July 2012 $
Other Income	**(394)**	(23)
Finance Costs	**368**	708
	(26)	685

For personal use only

NOTE 29: Earnings per share

	31 July 2013 Cents per share	31 July 2012 Cents per share
Basic earnings per share		
From continuing operations	**2.58**	2.77
Earnings per share	**2.58**	2.77
Diluted earnings per share		
From continuing operations	**2.57**	2.77
Earnings per share	**2.57**	2.77

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of earnings per share are as follows:

	2013 $'000	2012 $'000
Net profit after tax for the year	**13,962**	10,436
Profit used in the calculation of total basic EPS from continuing operations	**13,962**	10,436

	2013 No. '000	2012 No. '000
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share.	**542,003**	377,238

Diluted earnings per share

The earnings used in the calculation of diluted earnings per share are as follows:

	2013 $'000	2012 $'000
Net profit after tax for the year	**13,962**	10,436
Profit used in the calculation of diluted EPS from continuing operations	**13,962**	10,436

	2013 No. '000	2012 No. '000
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share.	**542,003**	377,238
Shares deemed to be issued for no consideration in respect of:		
Employee Share Loan Scheme	**243**	-
Share options and performance share rights	**-**	10
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share.	**542,246**	377,248

For personal use only

NOTE 29: Earnings per share (continued)

The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:

	31 July 2013 No. '000	31 July 2012 No. '000
Potential options non-dilutive	**6,710**	6,700
	6,710	6,700

Weighted average number of converted, lapsed or cancelled potential ordinary shares included in the calculation of diluted earnings per share:

	31 July 2013 No. '000	31 July 2012 No. '000
Options to purchase ordinary shares pursuant to the employee share option plan	**-**	-
	-	-

NOTE 30: Dividends on equity instruments

	31 July 2013 $'000		31 July 2012 $'000	
	Cents per Share	**Total '$000**	Cents per share	Total '$000
Recognised amounts				
Fully paid ordinary shares				
Interim dividend:	**0.5**	**2,702**	-	-
	0.5	**2,702**	-	-
Unrecognised amounts				
Fully paid ordinary shares				
Final dividend:	**0.5**	**3,223**	-	-
	0.5	**3,223**		

	31 July 2013 $'000	31 July 2012 $'000
Adjusted franking account balance	**20,733**	21,891
Impact on franking account balance of dividends not recognised	**1,381**	-

The above amount represents the balances of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment / (refund) of income tax payable as at the end of the year;
- franking debits that will arise from the payment of dividends proposed as at the end of the year; and
- franking credits that may be prevented from being distributed in the subsequent financial year.

For personal use only

NOTE 31: Lease Commitments

Lease Commitments

Non-cancellable operating lease commitments are disclosed in Note 32 to the financial statements. The total due under finance lease arrangements as at 31 July 2013 was $175,000 (2012: $224,000) and are disclosed in Note 20 of these accounts.

License guarantee commitments

Under the terms of various License Agreements the company guarantees the minimum levels of royalty payments. The commitment in relation to these guarantees is as follows:

	31 July 2013 $'000	31 July 2012 $'000
Not later than one year	**1,075**	1,267
Later than one year but not later than two years	**186**	294
Later than two years but not later than five years	**-**	75
	1,261	1,636

The expected future payments in relation to these license agreements are recognised as a liability as at 31 July 2013 (Note 23).

For personal use only

NOTE 32: Operating Leases

The operating leases are non-cancellable leases with respect to office and warehouse premises with lease terms of between six months and six years, some with options to extend. All operating leases with options to extend contain market review clauses in the event that the company Group exercises its option to renew. The Group and the company do not have an option to purchase the leased asset at the expiry of the leased period. The Group has entered into a non-cancellable sub-lease arrangement in respect to a warehouse premise. Minimum lease payments recognised as an expense:

	31 July 2013 $'000	31 July 2012 $'000
Minimum lease payments	**2,258**	1,887
Sub-lease payments received	**(591)**	(219)
	1,667	1,668

	31 July 2013 $'000	31 July 2012 $'000
Commitments in relation to non-cancellable operating leases contracted for but not capitalised in the accounts are payable as follows:		
No later than 1 year	**2,980**	2,358
Later than 1 but not later than 5 years	**7,938**	9,621
Later than 5 years	**-**	384
	10,918	12,363
Sub-lease receivables in relation to non-cancellable operating leases contracted for but not capitalised in the accounts are receivable as follows:		
No later than 1 year	**(607)**	(607)
Later than 1 but not later than 5 years	**(1,845)**	(2,538)
Later than 5 years	**-**	-
	(2,452)	(3,145)
Net commitments payable under non-cancellable operating leases contracted for but not capitalised in the accounts:		
No later than 1 year	**2,374**	1,751
Later than 1 but not later than 5 years	**6,092**	7,083
Later than 5 years	**-**	384
	8,466	9,218

Liabilities recognised in respect of non-cancellable operating leases

	Note	**31 July 2013 $'000**	31 July 2012 $'000
Restructuring Provision			
Current	21	**236**	300
Non-Current	21	**631**	999
Lease incentives			
Current	23	**187**	33
Non-current	23	**787**	917
		1,841	2,249

For personal use only

NOTE 33: Subsidiaries

Name of Entity	Country of Incorporation	Equity Holding 31 July 2013 %	Equity Holding 31 July 2012 %
Company			
Funtastic Limited[i]	Australia	100	100
Subsidiaries			
JNH Australia Pty Limited[ii],[iii]	Australia	100	100
Fun International Limited	Hong Kong	100	100
Funtastic International Limited	Hong Kong	100	100
Funtastic (NZ) Pty Limited[ii],[iii]	Australia	100	100
Funtastic Employee Share Loan Scheme Trust[iv]	Australia	100	-
Dorcy Irwin Pacific Pty Limited[ii]	Australia	100	100
Dorcy Investments Pty Limited[ii]	Australia	100	100
Irwin Pacific Pty Limited[ii]	Australia	100	100
Dorcy NZ Pty Limited	New Zealand	50	50
Madman Entertainment Pty Limited[ii],[iii]	Australia	100	100
Madman Productions Pty Limited (formerly known as Madman Films Pty Limited)[ii],[iii]	Australia	100	100
Madman Interactive Pty Limited[ii],[iii]	Australia	100	100
The AV Channel Pty Limited[ii],[iii]	Australia	100	100
Funtastic USA Pty Limited[ii],[iii] (formerly Judius Pty Limited)	Australia	100	100
My Paint Box Inc	USA	100	100
Madman NZ Limited	New Zealand	100	100
NSR (HK) Limited	Hong Kong	100	100
Hkeepod (HK) Limited	Hong Kong	100	100
Safety Products International Pty Limited[v]	Australia	75	-
Chill Factor Global Pty Limited	Australia	100	-
Hydro-Turbine Developments Pty Limited	Australia	100	-

(i) Funtastic Limited is the head entity within the tax-consolidated Group

(ii) These companies are members of the tax-consolidated Group

(iii) These wholly-owned subsidiaries have entered into a deed of cross guarantee with Funtastic Limited pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to prepare and lodge an audited financial report. The subsidiaries became a party to the deed of cross guarantee on 23 July 2008.

(iv) During the year, the Board established the Funtastic Employee Share Loan Scheme Trust for the purpose of purchasing and holding shares on behalf of participants in accordance with ESLS Rules. The assets of the scheme are held separately from those of the Company and are administered by trustees appointed by the Company. The Trust is consolidated into the Group financial statements at each reporting date.

(v) The value attributed to the minority interest is $nil.

For personal use only

NOTE 33: Subsidiaries (continued)

The consolidated Statement of Profit or Loss and other Comprehensive Income and Statement of Financial Position of the entities party to the deed of cross guarantee are:

Statement of profit or loss and other Comprehensive Income	**31 July 2013 $'000**	31 July 2012 $'000
Continuing operations		
Revenue	**136,029**	146,533
Cost of goods sold	**(72,628)**	(80,415)
Gross profit	**63,401**	66,118
Investment income	**612**	219
Warehouse and distribution	**(14,874)**	(14,096)
Marketing and selling	**(22,951)**	(24,672)
Administration	**(11,378)**	(10,454)
Gain on Lego Settlement	**3,272**	-
Earnings before interest, taxation, amortisation and depreciation expenses (EBITDA)	**18,082**	17,115
Finance costs	**(5,449)**	(7,027)
Depreciation and amortisation expenses	**(3,217)**	(2,220)
Profit before income tax	**9,416**	7,868
Income tax benefit	**28**	1,305
Profit for the year from continuing operations	**9,444**	9,173
Other comprehensive income		
Items that subsequently may be reclassified to profit or loss:		
Profit on cash flow hedges taken to equity	**1,962**	853
Other comprehensive income for the year (net of tax)	**1,962**	853
Total comprehensive income for the year	**11,406**	10,026

For personal use only

NOTE 33: Subsidiaries (continued)

The consolidated Statement of Comprehensive Income and Balance Sheet of the entities party to the deed of cross guarantee are:

Statement of Financial Position	31 July 2013 $'000	31 July 2012 $'000
Current Assets		
Cash	**3,756**	1,910
Trade and other receivables	**28,276**	33,342
Inventories	**21,456**	12,552
Other assets	**11,969**	16,207
Other financial assets	**7,541**	5,719
Total Current Assets	**72,998**	69,730
Non-Current Assets		
Property, plant and equipment	**2,526**	1,833
Goodwill	**78,845**	78,845
Other intangibles	**21,049**	10,123
Deferred tax assets	**12,841**	13,858
Other assets	**15,765**	13,165
Other financial assets	**-**	200
Total Non-Current Assets	**131,025**	118,024
Total Assets	**204,023**	187,754
Current Liabilities		
Trade and other payables	**14,990**	14,696
Borrowings	**43,170**	46,020
Provisions	**1,784**	3,734
Deferred purchase consideration	**924**	3,502
Other liabilities	**12,951**	2,152
Other financial liabilities	**663**	2,378
Total Current Liabilities	**74,482**	72,482
Non-Current Liabilities		
Borrowings	**7,883**	14,750
Provisions	**1,093**	1,400
Deferred purchase consideration	**-**	6,015
Deferred tax liabilities	**6,296**	5,201
Other liabilities	**745**	892
Total Non-Current Liabilities	**16,017**	28,258
Total Liabilities	**90,499**	100,740
Net Assets	**113,524**	87,014
Equity		
Issued capital	**204,497**	186,725
Accumulated losses	**(92,920)**	(99,662)
Reserves	**1,947**	(49)
Total Equity	**113,524**	87,014

For personal use only

NOTE 34: Acquisition of businesses

No businesses as defined under AASB3 Business Combinations, were acquired during the financial year ended 31 July 2013.

Names of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired (%)	Cost of acquisition $'000
2012				
Trading assets of Kidz@Play Pty Ltd (KPM)	Toy Distribution and manufacture	29 February 2012	0%	12,603

The acquired business contributed revenue of $6,190,793 to the Group for the period 29 February 2012 to 31 July 2012.

Whilst share acquisitions have taken place during the financial year ended 31 July 2013 in respect to the acquisitions of the Floaties and Chill Factor brands, both of these acquisitions, have been determined by the Directors, as asset acquisitions and consequently have been accounted for in accordance with AASB138 Intangible Assets

As at 31 July 2012 the acquisition of the KPM business had been accounted for in accordance with AASB 3 Business Combinations. The fair values were as presented below:

Net assets acquired and liabilities assumed on acquisition

	Final Fair value on acquisition $'000
Current assets	
Cash and cash equivalents	25
Inventories	455
Non-current assets – licenses[1]	5,290
Current liabilities	
Trade creditors	(246)
Shareholder loans	(86)
Other liabilities	(259)
Non-current liabilities – deferred tax liabilities	(1,587)
	3,592

Goodwill on acquisition

	Note	Kidz@Play Pty Limited
Cash to Vendor		**3,086**
Deferred consideration payable	22	**9,517**
Total Consideration		**12,603**
Fair value of net identifiable assets acquired		**3,592**
Goodwill arising on acquisition	15	**9,011**

[1]The net identifiable intangible represents value placed on a license agreement. This was valued at the time of acquisition.

The consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and access to global licensing opportunities. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

a) Net cash outflow on acquisition of subsidiaries

	Year ended 31 July 2013 $'000	Year ended 31 July 2012 $'000
Consideration paid in cash	5,133[i]	3,086
Less: cash and cash equivalent balances acquired	-	(25)
	5,133	3,061

[i]Relates to amounts paid on early settlement of deferred acquisition consideration

For personal use only

NOTE 35: Notes to the cash flow statements

a) Reconciliation of cash and cash equivalents

	31 July 2013 $'000	31 July 2012 $'000
For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:		
Cash and cash equivalents	**4,305**	2,257
	4,305	2,257

b) Financing facilities

	31 July 2013 $'000	31 July 2012 $'000
Total Financing Facilities Available		
National Debtor Finance Facility	**17,000**	22,000
Trade Refinance Facility	**15,300**	15,300
Commercial Bill Facility	**19,600**	24,600
Lego Bill Facility	**2,729**	-
Letters of Credit	**11,000**	11,000
Bank Guarantees	**3,300**	3,300
Other Facilities	**425**	474
	69,354	76,674
Reconciliation of Total Financing Facilities		
Facilities Used at Balance Date		
National Debtor Finance Facility	**15,238**	21,277
Trade Refinance Facility	**15,241**	15,003
Commercial Bill Facility	**19,600**	24,600
Lego Bill Facility	**2,729**	-
Letters of Credit	**8,905**	10,487
Bank Guarantees	**3,273**	3,273
Other Facilities	**181**	374
	65,167	75,014
Facilities Unused at Balance Date		
National Debtor Finance Facility	**1,762**	723
Trade Refinance Facility	**59**	297
Commercial Bill Facility	**-**	-
Lego Bill Facility	**-**	-
Letters of Credit	**2,095**	513
Bank Guarantees	**27**	27
Other Facilities	**244**	100
	4,187	1,660
Total Financing Facilities	**69,354**	76,674

The group has access to financing facilities at reporting date as indicated above.

For personal use only

NOTE 35: Notes to the cash flow statement (continued)

c) Reconciliation of Profit after Income Tax to Net Cash Inflow from Operating Activities

	31 July 2013 $'000	31 July 2012 $'000
Profit after income tax	**13,962**	10,436
Gain on early settlement of Lego deferred settlement costs	**(3,272)**	-
Income tax expense/(benefit) recognised in profit and loss	**67**	(606)
Amortisation	**2,594**	1,530
Depreciation	**1,501**	1,174
Interest and other investment income	**(612)**	(281)
Finance Costs recognised in profit or loss	**5,852**	7,410
Share options expense	**23**	142
Loss on sale of non-current assets	**19**	395
Impairment loss recognised on trade receivables	**530**	462
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:		
Increase/(Decrease) in trade and other receivables	**1,760**	(11,101)
(Increase)/decrease in inventories	**(9,296)**	6,077
Increase in prepayments and other current assets	**(4,359)**	(2,610)
Increase in trade creditors	**4,777**	3,057
Decrease in provisions	**(2,224)**	(3,027)
Decrease in other liabilities	**(130)**	(1,897)
Cash generated from operations	**11,192**	11,161
Income tax paid	**(311)**	(193)
Interest Paid	**(5,529)**	(7,185)
Net cash inflow from operating activities	**5,614**	3,783

NOTE 36: Financial Instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which comprises the borrowings detailed in Note 20, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, accumulated losses and reserves as disclosed in Notes 26, 27 and 28 respectively.

The board reviews the capital structure on a regular basis. As part of this review the cost of capital and the risks associated with each class of capital is considered. The Group balances its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt and the repayment of debt.

For personal use only

NOTE 36: Financial Instruments (continued)

During the year ended 31 July 2013, the Group complied with its externally imposed financing covenants.

Significant accounting policies

Details of 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. These policies were consistent throughout the current year and the prior period.

Financial Instrument	**31 July 2013 $'000**	31 July 2012 $'000
Financial assets		
Derivative instruments in designated hedge accounting relationships	**1,351**	-
Cash and cash equivalents	**4,305**	2,257
Loans and receivables	**36,363**	38,018
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	**663**	2,378
Amortised cost	**92,997**	97,132

Financial risk management objectives

The Group's finance function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risk. These risks include market risk (including currency risk, interest rate risk), credit risk and liquidity risk.

The Group seeks to minimise the effects of these risks, by using various financial instruments to hedge these exposures. The use of financial instruments is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity.

Compliance with policies and exposure limits is reviewed on a continual basis. The Group does not enter into any trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate risk and foreign currency risk, including:

- Foreign exchange forward contracts to hedge the exchange rate risk arising on the import of goods denominated in US dollars; and
- Interest rate swaps to mitigate the risk of rising interest rates.

At a Group level, market risk exposures are measured through sensitivity analysis and stress scenario analysis.

In 2013, while there has been a recent depreciation of the Australian dollar against the US dollar, and falling variable interest rates, there has been no material change to the Group's exposure to market risk or the manner in which it manages and measures the risk.

For personal use only

NOTE 36: Financial instruments (continued)

Foreign currency risk management

Foreign currency risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to foreign exchange risk arises from the net investment in New Zealand and United States operations and the undertaking of certain transactions denominated in foreign currencies.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Liabilities		Assets	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
US dollars	**9,899**	7,268	**13,023**	10,368
NZ dollars	**176**	97	**902**	663
Euro	**413**	17	**-**	-
Other	**-**	-	**85**	118

Foreign currency sensitivity

The Group is mainly exposed to the US dollar, Euro and the NZ dollar. The following table details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currencies. 10% is the sensitivity rate which represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit or loss where the Australian dollar strengthens against the respective currency. For a weakening of the Australian dollar against the respective currency there would be an equal and opposite impact on profit or loss, and the balances below would be equal and opposite. A positive number indicates an increase in other equity where the Australian dollar weakens against the respective currency. For a strengthening of the Australian dollar against the respective currency there would be an equal and opposite impact on other equity, and the balances below would be negative.

	USD Impact		EURO Impact		NZ Impact	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000	**2013 $'000**	2012 $'000
10% increase in AUD against foreign currency						
Profit & Loss[(i)]	**284**	283	**(37)**	2	**66**	52
Other equity[(ii)]	**1,615**	1,943	**-**	-	**-**	-
10% decrease in AUD against foreign currency						
Profit & Loss[(i)]	**(347)**	(344)	**46**	(2)	**(81)**	(63)
Other equity[(ii)]	**(745)**	(1,811)	**-**	-	**-**	-

[(i)] This is mainly attributable to the exposure outstanding in USD receivables and payables at year end.

[(ii)] This is mainly as a result of the changes in fair value of derivative instruments designated as cash flow hedges.

For personal use only

NOTE 36: Financial instruments (continued)

Forward foreign exchange contracts

The settlement dates, dollar amounts to be received/(paid) and contractual rates of the Group's outstanding contracts at balance date are:

	Average Exchange Rate		Foreign Currency		Contract Value		Fair Value	
Outstanding contracts	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Buy US dollar	**AUD/USD**		**US/Euro $'000**	US/Euro $'000	**A$'000**	A$'000	**$'000**	$'000
0-12 months	**0.9923**	0.9873	**11,461**	30,747	**11,550**	31,141	**12,865**	29,808
Buy Euro	**AUD/Euro**		**US/Euro $'000**	US/Euro $'000	**A$'000**	A$'000	**$'000**	$'000
0-12 months	**0.7352**	0.8175	**250**	600	**340**	734	**376**	724
Total					**11,890**	31,875	**13,241**	30,533

Forward foreign exchange contracts

The Group has entered into contracts to purchase inventory from overseas suppliers. These forward foreign exchange contracts are for terms not exceeding 12 months to hedge the exchange rate risk arising from these anticipated future purchases, which are designated into cash flow hedges.

At balance date these purchase contracts were assets of the Group of $1,351,000 (2012: $1,329,000).

During the year ended 31 July 2013 a gain on hedging instruments for the Group of $2,681,000 (31 July 2012: loss $1,329,000) has been brought to account in other current financial assets (Note 13) and liabilities (Note 24). An amount, net of tax, was transferred to equity (Note 28). It is anticipated these purchases will take place during the year to 31 July 2014 at which stage the amount deferred in equity will be included in the carrying amount of the finished goods inventory. It is anticipated that the finished goods inventory will be sold within 12 months after purchase at which stage the amount deferred in equity will impact profit or loss.

Interest rate risk management

Interest rate risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

The Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section below.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates to the Group at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The Group considers the likelihood of a 50 basis point increase or a 50 basis point decrease to be reasonable when reporting interest rate risk internally to key management personnel as this represents management's best estimate of the possible change in interest rates.

At reporting date, if interest rates had been 50 basis points higher or 50 basis points lower and all other variables were held constant, the Group's:

- Net profit after taxation would increase/decrease by $405,000/($405,000) respectively (2012: increase/decrease by $870,000/($359,500)). This is mainly due to the Group's exposure to interest rates on its variable rate borrowings; and
- Equity would increase/decrease by $220,000/($30,000) respectively (2012: $366,500/($226,000)). This is due to the Group's interest rate swap entered 4 February 2013.

For personal use only

NOTE 36: Financial instruments (continued)

Interest Rate Swap Contracts

Bank loans of the Group currently bear an average variable interest rate of 7.37% (2012: 7.97%). It is policy to protect part of the loans from exposure to increasing interest rates. Accordingly, the Group has entered into an interest rate swap contract under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. The contract is settled on a net basis and the net amount receivable or payable at the reporting date is included in financial assets/liabilities.

The floating rate on the interest rate swap is the Australian bank bill swap rate (BBSW).

The contract requires settlement of net interest receivable or payable quarterly. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

The swap currently in place covers 60% of the total debt outstanding with its senior lender and is timed to expire on 31 October 2014 (2012: swap in place covered 70% of the long term loan principal outstanding). The fixed interest rate is 4.02% (2012: 5.53%) and the variable rate is the bank bill rate of the term of the underlying bill which at balance date was 2.69% (2012: 3.63%).

As at 31 July 2013, the notional principal amounts and the periods of expiry of the interest rate swap contracts for the Group were as follows:

	Average contracted fixed interest rate		**Notional principal amount**		**Fair value**	
	2013 %	2012 %	**2013 $'000**	2012 $'000	**2013 $'000**	2012 $'000
Less than 1 year		-	**-**	-	**-**	-
1-2 years	**4.02**	5.53	**30,000**	64,905	**(663)**	(1,209)
2-3 years		**-**	**-**	-	**-**	-
			30,000	64,905	**(663)**	(1,209)

The interest rate swap contract exchanging floating rate interest amounts for fixed rate interest amounts is designated as a cash flow hedge in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swap and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the loan period.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Trade receivables consist of a large number of customers spread across diverse industries. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance is purchased.

The Group has a credit risk exposure to a small number of major ASX listed corporations for which credit guarantee insurance is not purchased. Ongoing credit evaluation is performed on the financial condition of these accounts receivable.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Group's maximum exposure to credit risk.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

For personal use only

NOTE 36: Financial instruments (continued)

Liquidity and interest tables - financial liabilities

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Less than 1 month $'000	1 – 3 months $'000	3 months to 1 year $'000	1 – 5 years $'000	5+ years $'000	Total $'000
2013							
Non-interest bearing	-	3,994	21,450	12,690	1,880	-	40,014
Variable interest rate instruments	7.37	3,069	6,432	3,738	3,111	-	16,350
Fixed interest rate instruments	7.67	7,300	15,278	9,206	7,043	-	38,827
		14,363	**43,160**	**25,634**	**12,034**	**-**	**95,191**
2012							
Non-interest bearing	-	3,452	13,807	11,837	6,932	-	36,028
Variable interest rate instruments	7.98	3,654	7,360	3,160	4,770	-	18,944
Fixed interest rate instruments	9.31	8,533	17,194	7,517	11,585	-	44,829
		15,639	**38,361**	**22,514**	**23,287**	**-**	**99,801**

For personal use only

NOTE 36: Financial instruments (continued)

Liquidity and interest tables - financial assets

The following table details the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the understood contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate %	Less than 1 month $'000	1 – 3 months $'000	3 months to 1 year $'000	1 – 5 years $'000	5+ years $'000	Total $'000
2013							
Non-interest bearing	-	7,204	28,819	340	-	-	36,363
Variable interest rate instruments	2.75	4,305	-	-	-	-	4,305
		11,509	**28,819**	**340**	**-**	**-**	**40,668**
2012							
Non-interest bearing	-	7,543	30,174	100	200	-	38,017
Variable interest rate instruments	3.82	2,257	-	-	-	-	2,257
		9,800	**30,174**	**100**	**200**	**-**	**40,274**

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximates their fair values.

Fair value measurements recognised in the consolidated statement of financial position

The carrying value of financial instruments that are measured subsequent to initial recognition at fair value are detailed in other current financial assets (Note 13) and liabilities (Note 24). These are all classified as level 2 fair value measurements as described below:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For personal use only

NOTE 37: Share-based payments

Executive Share Option Plan (ESOP)

A scheme under which shares may be issued to executives was approved by a resolution of shareholders and directors of the company on 2 August 2000. Options are granted under the plan for no consideration. Options are granted over varying periods and on conditions attributable to each issue of options. The entitlements to the options are as soon as they become exercisable. The options are not exercisable until certain criteria are met.

Option type 2

In respect to one half of the options granted the following performance conditions are required to be achieved:

a) for 50% to vest, the diluted earnings per share (EPS) average increase in growth rate over three years, is required to be 11%p.a;

b) for the remaining 50% to vest the average diluted EPS growth rate over the three years, is required to be 15%p.a;

c) if the average annual increase in diluted EPS growth rate over three years, is between 11%p.a. and 15%p.a, the options will vest proportionately from 50% up to 100% of the entitlement; and

d) the employee being in continuous employment with the company until 31 March in the year following the three years.

In respect of the other half of the options granted the following performance conditions are required to be achieved:

a) for 50% to vest, Funtastic's relative total shareholders return (TSR) during the three year period is required to be at least equal to the TSR achieved by the company which is the median of the companies in the Comparator Group ranked by TSR performance (the Comparator Group comprises the companies in the S&P ASX small ordinaries index at the start of the period);

b) for the remaining 50% of the entitlement to vest, Funtastic's TSR has to be equal to or greater than the TSR of the company which is at the 75th percentile of the Comparator Group ranked by TSR performance during the three year period;

c) for each percentile increase in Funtastic's TSR ranking above the median ranking up to the 75th percentile, an additional 2% vests up to 100%; and

d) the employee being in continuous employment with the Company until 31 August in the year following the three years.

Option type 3

For each of the three years, one third of the options will vest on the anniversary of employment provided there is a 30% compound share growth based on the exercise price of 13.5 cents. In such case the following performance hurdles are required to be achieved:

a) in year 1 the share price to be no less than 17 cents;

b) in year 2 the share price to be no less than 23 cents; and

c) in year 3 the share price to be no less than 30 cents.

If the performance hurdle rate is not achieved for any particular year the allocation of options for that year will still vest if the cumulative performance hurdle for the following year or years is achieved. In such cases the vested options roll over to the year when the cumulative performance hurdle is achieved.

Performance hurdles will be achieved if the requisite share price is maintained for any six months of the relevant 12 month period, based on the volume weighted average market price of the shares on the ASX for each month commencing on the first day of employment with Funtastic.

Option type 4

Type 4 options are identical to type 3 options in every regard, except for the following exercise price and performance hurdles:

For each of the three years, one third of the options will vest on the anniversary of employment provided there is a 30% compound share growth based on the exercise price of 20.7 cents. In such case the following performance hurdles are required to be achieved:

a) in year 1 the share price to be no less than 27 cents;

b) in year 2 the share price to be no less than 35 cents; and

c) in year 3 the share price to be no less than 45 cents.

For personal use only

NOTE 37: Share-based payments (continued)

ESOP options are valued using a trinomial option pricing model. Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

The exercise price of options is based on the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the five days immediately before the options are granted. Amounts receivable on the exercise of options are recognised as share capital.

No options were granted under the plan during the current financial year or preceding financial year.

Balance outstanding at the end of the financial year

2013

Option Type	Option Number	Grant Date	Expiry date	Exercise price	Grant date average fair value	Balance at end of period
2	33	20/03/2008	02/09/2013	$0.440	$0.120	200,000
3	35	21/08/2009	10/08/2014	$0.135	$0.072	4,000,000
4	37	01/04/2010	01/04/2015	$0.207	$0.119	1,000,000
						5,200,000

2012

Option Type	Option Number	Grant Date	Expiry date	Exercise price	Grant date average fair value	Balance at end of period
2	33	20/03/2008	02/09/2013	$0.440	$0.120	200,000
3	35	21/08/2009	10/08/2014	$0.135	$0.072	4,000,000
4	37	01/04/2010	01/04/2015	$0.207	$0.119	1,000,000
						5,200,000

Fair value of options granted

Fair values have been determined in accordance with AASB 2 'Share Based Payments' where the value of options is determined at grant date, and are included in remuneration on a proportionate basis from grant date to vesting date.

The model inputs for options granted include:

Option Number	33	35	37
Grant Date	20/03/08	21/08/09	01/04/2010
Vesting Date	31/08/11	21/08/12	09/11/11 & 09/11/12
Expiry Date	02/09/13	10/08/14	01/04/15
Exercise price	$0.440	$0.135	$0.207
Stock Price at Issue	$0.370	$0.200	$0.230
Expected Life (years)	4.3	4.4	4.4
Volatility	50%	60%	72%
Risk free rate	6.00%	6.60%	5.48%
Dividend yield	4.00%	4.00%	4.00%
Vesting period (years)	N/A	N/A	N/A
Average fair value	$0.115	$0.072	$0.119

For personal use only

NOTE 37: Share-based payments (continued)

Fair value of options granted (continued)

The following reconciles the outstanding share options granted under the executive share option plan at the beginning and end of the financial year:

	2013		2012	
	Number of options	**Weighted average exercise price $**	Number of options	Weighted average exercise price $
Balance at the beginning of the financial year	**5,200,000**	**0.161**	5,200,000	0.161
Granted during the financial year	**-**	**-**	-	-
Forfeited during the financial year	**-**	**-**	-	-
Exercised during the financial year	**-**	**-**	-	-
Expired during the financial year	**-**	**-**	-	-
Balance at the end of the financial year	**5,200,000**	**0.161**	5,200,000	0.161
Exercisable at the end of the financial year	**-**	**-**	-	-

No options were exercised during the current financial year or preceding financial year.

The weighted average remaining contractual life of the share options outstanding as at 31 July 2013 is 1.12 years (31 July 2012: 2.12 years).

No options were granted during the current or preceding financial year $200,000 options expired on 2 September 2013

No executive options vested at the reporting date for the current or preceding financial year.

Aggregate proceeds received from executives on the exercise of options and recognised as issued capital in the financial period was $nil (2012: $nil).

Market value of shares issued to executives on the exercise of options as at their issue date in the financial period was $nil (2012: $nil).

Employee Performance Share Rights

During 2005 the company established the Funtastic Employee Performance Share Rights Plan (EPSR).

Rights are granted under the plan for no consideration. Rights are granted over varying periods and on conditions attributable to each issue of right. The entitlements to the EPSRs are available as soon as they become exercisable.

The rights are not exercisable until certain performance criteria are met as follows:

EPSR Type 1

(a) 50% exercisable if the average diluted EPS reaches or exceeds 13% growth per annum over a three year period commencing five years prior to the expiry date; and

(b) remaining options will vest pro rata so that all options will be vested when the average diluted EPS reaches or exceeds 17% growth per annum over the same three year period; and

(c) executive remaining in employment at the date of vesting.

For personal use only

NOTE 37: Share-based payments (continued)

EPSR Type 2

In respect to one half of the EPSRs granted the following performance conditions are required to be achieved:

a) for 50% to vest the average diluted earnings per share (EPS) growth rate over three years is required to be 11%p.a;

b) for the remaining 50% to vest the average diluted EPS growth rate over three years is required to be 15%p.a;

c) if the average annual diluted EPS growth rate over three years is between 11%p.a and 15%p.a, the options will vest proportionately from 50% up to 100% of the entitlement; and

d) the employee being in continuous employment with the company until 31 March in the year following the three years.

In respect of the other half of the EPSRs granted the following performance conditions are required to be achieved:

a) for 50% to vest, Funtastic's relative total shareholders return (TSR) during the three year period is required to be at least equal to the TSR achieved by the company which is the median of the companies in the Comparator Group ranked by TSR performance (The Comparator Group comprises the companies in the S&P ASX small ordinaries index at the start of the period);

b) for the remaining 50% of the entitlement to vest, Funtastic's TSR has to be equal to or greater than the TSR of the company which is at the 75th percentile of the Comparator Group ranked by TSR performance during the three year period;

c) for each percentile increase in Funtastic's TSR ranking above the median ranking up to the 75th percentile, an additional 2% vests up to 100%; and

d) the employee being in continuous employment with the Company until 31 August in the year following the three years.

Rights granted under the plan carry no dividend or voting rights.

When exercisable, each right is convertible into one ordinary share.

No consideration is payable by participants if the performance measures are achieved and the shares are granted.

There were no rights granted under the plan during the current or preceding financial year.

EPSR Balance outstanding at the end of the financial year

2013

EPSR type	EPSR Number	Grant date	Expiry date	Exercise price	Fair value at grant date	Balance at end of Financial year
2	35	03/07/2008	02/09/2013	Nil	$0.39	10,000
						10,000

2012

EPSR type	EPSR Number	Grant date	Expiry date	Exercise price	Fair value at grant date	Balance at end of Financial year
2	35	03/07/2008	02/09/2013	Nil	$0.39	10,000
						10,000

No Rights were vested at the reporting date.

For personal use only

NOTE 37: Share-based payments (continued)

Fair value of performance rights granted

Fair values have been determined in accordance with AASB 2 Share Based Payments where the value of performance rights is determined at grant date, and are included in remuneration on a proportionate basis from grant date to vesting date.

The model inputs for performance rights granted include:

EPSR Number	**35**
Issue Date	03/07/2008
Vesting Date	31/03/12 & 31/08/12
Expiry Date	02/09/13
Exercise price	$0.00
Stock Price at Issue	$0.50
Expected life (year)	2.9
Volatility	60%
Risk free rate	6.65%
Dividend yield	4.0%
Value	$0.38

The following reconciles the outstanding EPSRs granted under the employee performance share rights option plan at the beginning and end of the financial year:

	31 July 2013		**31 July 2012**	
	Number of EPSRs	**Weighted average exercise price $**	Number of EPSRs	Weighted average exercise price $
Balance at the beginning of the financial year	10,000	-	10,000	-
Granted during the financial year	-	-	-	-
Forfeited during the financial year	-	-	-	-
Exercised during the financial year	-	-	-	-
Expired during the financial year	-	-	-	-
Balance at the end of the financial year	10,000	-	10,000	-
Exercisable at the end of the financial year	-	-	-	-

No EPSRs were exercised during the current or preceding financial year.

The fair value of shares issued on the exercise of rights is the weighted average price at which the company's shares were traded on the Australian Stock Exchange on the day prior to the exercise of the rights.

The weighted average remaining contractual life for the performance share rights as at 31 July 2013 is 0.09 years (2012: 1.09 years).

During the financial year, no performance share rights were granted (2012: nil) and these performance share rights expired on 2 September 2013.

For personal use only

NOTE 37: Share-based payments (continued)

Employee Share Loan Scheme

During the financial year, the Company established the Funtastic Employee Share Loan Scheme (ESLS).

The Funtastic Employee Share Loan Scheme Trust (Trust) was established for the purpose of purchasing and holding shares on behalf of participants to satisfy exercises made under the ESLS operated by Funtastic. Under the ESLS, an interest free limited recourse loan to the value of the grant date issue price per share was granted to each participant. Each participant directs Funtastic to pay the loan amount to the trustee of the Trust and the trustee to use the loan amount to acquire shares on behalf of the Participant.

The loan is repayable by the participant when the options become exercisable, being after the vesting date and subject to the satisfaction of the vesting conditions. When the options are exercisable, in the event that the balance of the loan is less than the estimated market value of shares that secure a loan less estimated transaction costs, a participant may request Funtastic to sell the shares on the ASX and that the funds received from the sale of those shares, less any costs incurred in connection with the sale and less the loan balance be remitted to the participant.

In the event that the loan balance is greater than the sale proceeds, a participant may request Funtastic to transfer the shares which secure the loan to the participant provided that the participant remits any outstanding balance of the loan to Funtastic as repayment of the loan.

In the event that an employee ceases employment with Funtastic, is entitled to vested shares and does not direct Funtastic to sell or transfer such Shares to the participant and the balance of the loan is greater than the estimated proceeds amount, Funtastic must buy back and cancel such shares with the consideration from the buyback being the full satisfaction of the then outstanding balance of the loan. The participant will have no further entitlements to or in respect of the shares.

During the vesting period, dividends paid (less the estimated net tax payable on such dividends) are used to repay the principal of the loan granted to the participant. No dividends have been paid or are currently payable in relation to the ESLS since the inception of the scheme.

The scheme is treated for accounting purposes as in substance options and therefore the ESLS are valued using a black Scholes option pricing model.

The options are not exercisable until the service vesting condition is met and the only vesting condition is for participants to remain in employment until 1 January 2016. The expiry date of the options is on the date the employee ceases employment with Funtastic.

Each participant may direct the trustee on how the voting rights attached to shares held by the Trustee on behalf of the participant should be exercised.

ESLS Balance outstanding at the end of the financial year

2013				
Grant date	**Expiry date**	**Exercise price[ii]**	**Fair value at grant date**	**Balance at end of Financial year**
24/06/2013	N/A[i]	$0.1599	$0.16	2,400,000
		$0.1599		**2,400,000**

2012				
Grant date	**Expiry date**	**Exercise price**	**Fair value at grant date**	**Balance at end of Financial year**
-	-	-	-	-
				-

[i]The expiry date is the date the employee ceases employment with Funtastic whether vested or not.

[ii]The exercise price represents the issue price of $0.1599 per share offered to participants upon invitation to participate in the ESLS. As part of the ESLS, an interest-free, limited recourse loan to the value of $0.1599 for each share offered was issued to each participant for the purpose of acquiring shares in Funtastic. Further details on the loan are set out above. Dividends paid (less the estimated net tax payable on such dividends) are used to repay the principal of the loan granted to the participant. No dividends have been paid or are currently payable in relation to the ESLS since the inception of the scheme.

For personal use only

NOTE 37: Share-based payments (continued)

Fair value of ESLS options granted

Fair values have been determined in accordance with AASB 2 'Share Based Payments' where the value of options is determined at grant date, and are included in remuneration on a proportionate basis from grant date to vesting date. ESLS options are valued using a Black-Scholes option pricing model. The model inputs for options granted include:

Option Number	ESLS
Grant Date	24/06/13
Vesting Date	01/01/16
Expiry Date	N/A
Exercise price	$0.1599
Stock Price at Issue	$0.1599
Expected Life (years)[i]	N/A
Volatility	55.55%
Risk free rate	3.00%
Dividend yield	N/A
Vesting period (years)	2.5
Average fair value at Grant Date	$0.05021

[i]The options granted under the ESLS do not have an expiry date and can be exercised any date after vesting conditions have been met.

For personal use only

Note 37: Share-based payments (continued)

The following reconciles the outstanding share options granted under the Employee Share Loan Scheme at the beginning and end of the financial year:

	2013		2012	
	Number of options	**Weighted average exercise price $**	Number of options	Weighted average exercise price $
Balance at the beginning of the financial year	-	-	-	-
Granted during the financial year	2,400,000	0.1599	-	-
Forfeited during the financial year	-	-	-	-
Exercised during the financial year	-	-	-	-
Expired during the financial year	-	-	-	-
Balance at the end of the financial year	2,400,000	0.1599	-	-
Exercisable at the end of the financial year	-	-	-	-

During the year, 2,400,000 ESLS options were granted to employees. No ESLS options vested at the reporting date for the current or preceding financial year.

The weighted average remaining contractual life of the share options outstanding as at 31 July 2013 is 2.5 years.

Aggregate proceeds received from employees on the exercise of options and recognised as issued capital in the financial period was $nil (2012: $nil).

Market value of shares issued to employees on the exercise of options as at their issue date in the financial period was $0.05021 (2012: $nil).

NOTE 38: Key management personnel compensation

Details of key management personnel

The directors and other members of key management personnel of the Group during the year were:

Shane Tanner	Chairman & Independent Non-executive Director
Stewart Downs	Managing Director & Chief Executive Officer
Craig Mathieson	Non-executive Director
Nir Pizmony	Executive Director
Stephen Heath	Independent Non-executive Director
Linda Norquay	Independent Non-executive Director
Paul Wiegard	Executive Director
James Cody	Chief Financial Officer and Company Secretary
Tim Anderson	Joint Managing Director – Madman Entertainment
Pedro Sangil Lopez	General Manager - Asia

For personal use only

NOTE 38: Key management personnel compensation (continued)

Key management personnel compensation

The aggregate compensation made to key management personnel of the Group is set out below:

	Year ended 31 July 2013 $	Year ended 31 July 2012 $
Short-term employee benefits	**2,357,619**	2,568,758
Post-employment benefits	**144,516**	145,041
Other long-term benefits	**15,122**	37,337
Termination benefits	**-**	-
Share-based payments	**20,535**	141,637
	2,531,792	2,892,773

NOTE 39: Related party transactions

a) Equity interests in related parties

Equity interests in subsidiaries.

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 33 to the financial statements.

b) Transactions with Key Management Personnel

Key management personnel compensation

Details of key management personnel compensation are disclosed in Note 38 to the financial statements.

Loans from key management personnel

Outstanding loans from key management personnel of the Group or from their related entities are

	31 July 2013 $	31 July 2012 $
Nir Pizmony[(i)]	**912,822**	828,363

[(i)] Funtastic Limited repaid the shareholder loan in full on 30 August 2013

For personal use only

NOTE 39: Related party transactions (continued)

Key management personnel equity holdings

Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of Funtastic Limited and each of the key management personnel of the consolidated entity, including their related entities, are set out below.

Year ended 31 July 2013	Balance at the start of the period	Granted during the period as remuneration	Exercised during the period	Other changes during the period i.e. forfeited/lapsed	Balance at the end of the period	Vested and exercisable at the end of the period
Non-Executive Directors						
Shane Tanner	-	-	-	-	-	-
Craig Mathieson	-	-	-	-	-	-
Stephen Heath	-	-	-	-	-	-
Linda Norquay	-	-	-	-	-	-
Executive Directors						
Stewart Downs	4,200,000	400,000	-	-	4,600,000	1,333,333
Nir Pizmony	-	-	-	-	-	-
Paul Wiegard	-	200,000	-	-	200,000	-
Executives						
Tim Anderson	-	200,000	-	-	200,000	-
James Cody	1,000,000	200,000	-	-	1,200,000	-
Pedro Sangil Lopez	-	200,000	-	-	200,000	-

For personal use only

NOTE 39: Related party transactions (continued)

Key management personnel equity holdings (continued)

Year ended 31 July 2012	Balance at the start of the period	Granted during the period as remuneration	Exercised during the period	Other changes during the period i.e. forfeited/lapsed	Balance at the end of the period	Vested and exercisable at the end of the period
Non-Executive Directors						
Shane Tanner	-	-	-	-	-	-
Craig Mathieson	-	-	-	-	-	-
Stephen Heath	-	-	-	-	-	-
Linda Norquay[(i)]	-	-	-	-	-	-
James Flintoft[(ii)]	-	-	-	-	-	-
Executive Directors						
Stewart Downs	4,200,000	-	-	-	4,200,000	1,333,333
Nir Pizmony	-	-	-	-	-	-
Paul Wiegard[(iii)]	-	-	-	-	-	-
Executives						
Tim Anderson	-	-	-	-	-	-
James Cody	1,000,000	-	-	-	1,000,000	-
Pedro Sangil Lopez	-	-	-	-	-	-

[(i)] Mrs L Norquay – appointed effective 2 September 2011
[(ii)] Mr J Flintoft – resigned effective 2 September 2011
[(iii)] Mr P Wiegard – appointed effective 24 October 2011

Performance Share Right holdings

There were no Performance Share Rights held by management personnel of the Group at the beginning, and or during the financial year.

For personal use only

NOTE 39: Related party transactions (continued)

Shareholdings

The numbers of shares in the company held during the financial year by each key management personnel of the Group, including their related entities, are set out below.

Year ended 31 July 2013	Balance at the start of the period	Shares purchased through rights and placement issues during the period	Shares sold privately during the period	Received as consideration on acquisition of business	Balance at the end of the period
Directors					
Shane Tanner	400,000	-	-	-	400,000
Stewart Downs	2,672,776	-	-	-	2,672,776
Nir Pizmony	30,685,131	-	(500,000)	-	30,185,131
Craig Mathieson	113,125,543	-	-	-	113,125,543
Steven Heath	666,667	-	-	-	666,667
Linda Norquay	-	-	-	-	-
Paul Wiegard	1,900,698	-	-	-	1,900,698
Executives					
James Cody	-	-	-	-	-
Tim Anderson	1,555,870	-	-	-	1,555,870
Pedro Sangil Lopez	-	-	-	-	-

For personal use only

NOTE 39: Related party transactions (continued)

Shareholdings (continued)

Year ended 31 July 2012	Balance at the start of the period	Shares purchased through rights and placement issues during the period	Shares purchased privately during the period	Received as consideration on acquisition of business	Balance at the end of the period
Directors					
Shane Tanner	200,000	200,000	-	-	400,000
Stewart Downs	2,672,776	-	-	-	2,672,776
Nir Pizmony	14,733,683	3,103,448	-	12,848,000	30,685,131
Craig Mathieson	98,555,088	13,793,103	777,351	-	113,125,543
Steven Heath	-	166,667	500,000	-	666,667
Linda Norquay	-	-	-	-	-
Paul Wiegard	1,555,870	344,828	-	-	1,900,698
James Flintoft[(i)]	1,350,848	-	-	-	N/A
Executives					
James Cody	-	-	-	-	-
Tim Anderson	1,555,870	-	-	-	1,555,870

[(i)]Not a director as at 31 July 2012

For personal use only

NOTE 39: Related party transactions (continued)

c) Transactions with key management personnel of the Group

Profit for the year includes the following items of revenue and expense that resulted from transactions, other than compensation, loans or equity holdings, with key management personnel or their related entities:

	31 July 2013 $	31 July 2012 $
Consolidated revenue includes the following amounts arising from transactions with key management personnel of the Group or their related parties:		
Gross revenue	**1,210**	2,346
Interest revenue	**-**	-
Dividend revenue	**-**	-
	1,210	2,134
Consolidated profit includes the following amounts arising from transactions with key management personnel of the Group or their related parties:		
Cost of goods sold	**6,938,661**	3,447,988
Interest expense	**67,176**	120,079
Net amounts written off and allowances for doubtful receivables	**-**	-
	7,005,837	3,568,067
Total assets arising from transactions other than loans and amounts receivable in relation to equity instruments with key management personnel or their related parties:		
Current – Other (prepaid expenses)	**-**	-
Current – Inventories	**-**	-
Current – Trade receivables	**-**	503
Non-current	**-**	-
		503
Total liabilities arising from transactions other than compensation with key management personnel or their related parties:		
Current	**1,890,148**	1,747,387
Non-current	**-**	-
	1,890,148	1,747,387

The above transactions were performed at arm's length.

For personal use only

NOTE 39: Related party transactions (continued)

During the financial year, the Group recognised the following transactions with key management personnel:

- Sales of $1,210 (2012: $2,346) to Petite Living Pty Limited a company related to Mr Craig Mathieson and Mr Stewart Downs with an amount due as at 31 July 2013 of NIL (2012: $503);
- Purchases of NIL (2012: $49,717) from Toymonster Limited a Hong Kong registered company related to Mr Nir Pizmony;
- Purchases of $6,938,661 (2012: $3,168,741) from Madman Printing Pty Limited a company related to Mr Tim Anderson and Mr Paul Wiegard;
- Royalty payments of NIL (2012: $229,530) to Wild Pumpkin Royalties Pty Limited a company related to Mr Nir Pizmony. Mr Pizmony ceased to be a shareholder of Wild Pumpkin during the year ended 31 July 2012;
- As a result of the acquisition of NSR (HK) Limited a company related to Mr Nir Pizmony, the Group assumed responsibility for the loans advanced to NSR by its Shareholders. Funtastic Limited repaid the shareholder loan in full on 30 August 2013. As at 31 July 2013 the amount owing under this arrangement was $912,822 (2012: $828,363). The loan is denominated in US dollars and attracts interest at a rate linked to the Group's cost of borrowing. Interest accrued as at 31 July 2013 was $187,255 of which $67,176 relates to the financial year ended 31 July 2013.
- Payments of nil (2012: $100,000) were made to Kooyongkoot Pty Ltd, a company related to Mr Craig Mathieson in respect to underwriting fees in relation to the Capital Raising conducted during the year ended 31 July 2012.

d) Transactions with other related parties

Transactions between Funtastic Limited and other entities in the wholly-owned Group during the financial years ended 31 July 2013 and 31 July 2012:

- Sales made by Funtastic Limited;
- loans advanced and interest charged by Funtastic Limited;
- management services provided by Funtastic Limited;
- management services provided to Funtastic Limited; and
- payment to/from Funtastic Limited for the above services.

NOTE 40: Remuneration of Auditors

	Year ended 31 July 2013 $	Year ended 31 July 2012 $
Auditor of the parent entity		
Audit and review of the financial reports of the entity	**255,000**	270,000
Audit of the financial report of overseas subsidiary[1]	**52,061**	24,700
Preparation of tax return	**42,828**	7,899
General taxation services	**65.000**	15,891
Other advisory services	**104,000**	-
	518,889	318,490

The auditor of Funtastic Limited is Deloitte Touche Tohmatsu.

[1] Related practice of parent entity auditor.

For personal use only

NOTE 41: Parent entity disclosures

Financial Position

	31 July 2013 $	31 July 2012 $
Assets		
Current assets	**62,943**	70,161
Non-current assets	**132,368**	104,986
	195,311	175,147
Liabilities		
Current liabilities	**80,332**	74,729
Non-current liabilities	**17,846**	28,671
	98,178	103,400
Equity		
Issued capital	**204,881**	186,725
Accumulated losses prior to 31 July 2011	**(123,755)**	(123,755)
Profits reserved from 1 August 2011	**14,071**	8,826
Reserves		
Equity-settled benefits	**1,639**	1,616
Cash flow hedging	**297**	(1,665)
	97,133	71,747

Financial Performance

	Year ended 31 July 2013 $'000	Year ended 31 July 2012 $'000
Profit for the year	**7,948**	8,826
Other comprehensive income	**1,985**	996
Total comprehensive income	**9,933**	9,822

For personal use only

NOTE 41: Parent entity disclosures (continued)

Commitments for expenditure

There were no commitments to acquire property, plant and equipment at 31 July 2013. Contingent liabilities as disclosed in Note 43 relate to the parent entity as well as the Group.

NOTE 42: Subsequent Events

There has not been any matter or circumstance occurring subsequent to the end of the financial period that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

NOTE 43: Contingent Liabilities

Contingent Liabilities	**31 July 2013 $'000**	31 July 2012 $'000
Legal Proceedings	551	185

An entity of the Group is subject to a legal claim from the liquidation of a company who sold intellectual property to the Group entity prior to being placed into liquidation on 31 May 2011.

The liquidators have claimed the transfer of property was a voidable transaction and are seeking compensation amounting to $550,929 in respect to the assets transferred.

The Directors believe their original transfer of assets was a legal transaction and based on legal advice recovered determined no liability arises from this transaction. Accordingly no provision has been made in respect to this in these financial statements.

NOTE 44: General Information

Funtastic Limited (the Company) is a limited company incorporated in Australia. The addresses of its registered office and principal place of business are disclosed in the introduction to the annual report. The principal activities of the Company and its subsidiaries (the Group) are described in Note 4.

For personal use only

Additional stock exchange information as at 26 September 2013

Distribution of equity securities

Analysis of numbers of equity security holders by size of holdings.

	Ordinary Shares		
Range	**Holders**	**Options**	**Performance share rights**
1-1,000	778	-	-
1,001-5,000	1,529	-	-
5,001-10,000	695	-	-
10,001-100,000	1,162	-	1
100,001 and over	234	13	-
	4,398	**13**	**1**

There are 1,669 shareholders holding less than a marketable parcel of ordinary shares.

Substantial holders

Substantial holders in the Company are set out below:

	Shares	**%**
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	99,774,978	15.479
J P MORGAN NOMINEES AUSTRALIA LIMITED	79,164,645	12.282
NATIONAL NOMINEES LIMITED	70,473,971	10.933
CITICORP NOMINEES PTY LIMITED	64,822,412	10.057
BELL POTTER NOMINEES LTD <BB NOMINEES A/C>	50,190,414	7.787

For personal use only

Additional stock exchange information as at 26 September 2013

Twenty largest quoted equity security holders		Shares	%
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	99,774,978	15.479
2	J P MORGAN NOMINEES AUSTRALIA LIMITED	79,164,645	12.282
3	NATIONAL NOMINEES LIMITED	70,473,971	10.933
4	CITICORP NOMINEES PTY LIMITED	64,822,412	10.057
5	BELL POTTER NOMINEES LTD <BB NOMINEES A/C>	50,190,414	7.787
6	G HARVEY NOMINEES PTY LIMITED	26,470,587	4.107
7	BNP PARIBAS NOMS PTY LTD <DRP>	14,231,639	2.208
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	14,118,897	2.190
9	G HARVEY NOMINEES PTY LTD <HARVEY 1995 DISCRETIONARY AC>	13,820,687	2.144
10	PIZ BY PIZ PTY LTD	12,348,000	1.916
11	AUST EXECUTOR TRUSTEES SA LTD <TEA CUSTODIANS LIMITED>	10,311,884	1.600
12	MR HOD PIZEM	10,310,234	1.600
13	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	8,919,976	1.384
14	MR NIR PIZMONY & MRS MARIA LUTGARDA PIZMONY <PIZMONY FAMILY S/F A/C>	8,733,683	1.355
15	CJ PRODUCTS LLC	6,959,137	1.080
16	RENSH PTY LTD	6,000,000	0.931
17	DDVM SUPERANNUATION NOMINEES PTY LTD <DDVM SUPERANNUATION FUND A/C>	5,700,438	0.884
18	PHILRENE PTY LTD <PHILRENE SUPERFUND A/C>	3,221,821	0.500
19	MR CHRISTOPHER IAN WALLIN & MS FIONA KAY WALLIN <CHRIS WALLIN SUPERFUND A/C>	3,192,494	0.495
20	PIZ BY PIZ PTY LTD	3,103,448	0.481

Unquoted equity securities	Number on Issue	Number of holders
Options issued under the Funtastic Executive Share Option Plan	5,200,000	2
Options issued under the Employee Share Loan Plan	2,400,000	11
Performance share rights issued under the Funtastic Employee Performance Share Rights Plan	10,000	1
Ordinary options – MGA Entertainment (HK) Limited	1,500,000	1

Voting Rights

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

Ordinary shares

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

Options and Performance Share Rights

No voting rights.

For personal use only