



**Appendix 4E (rule 4.3A) – Preliminary Final Report for the year ended 31 July 2014**

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<b>Name of Entity:</b>	Funtastic Limited
<b>ABN:</b>	94 063 886 199
<b>Current Financial Period Ended:</b>	Year ended 31 July 2014
<b>Previous Corresponding Reporting Period:</b>	Year ended 31 July 2013

## Results for Announcement to the Market

	\$'000	Up/Down	% Movement
Revenue from ordinary activities from continuing operations	124,589	Up	7.6%
Revenue from ordinary activities from discontinued operations	37,867	Down	(25.5%)
Net loss from ordinary activities after tax from continuing operations (all attributable to members of Funtastic Limited)	(10,010)	Down	(216.1%)
Net loss from ordinary activities after tax from discontinued operations (all attributable to members of Funtastic Limited)	(25,697)	Down	(581.5%)

<b>Dividend Information</b>	<b>Amount per Share (cents)</b>	<b>Franked amount per Share (cents)</b>	<b>Tax rate for Franking Credit</b>
Interim Dividend – Current reporting period	nil	nil	n/a
Final Dividend – Current reporting period	nil	nil	n/a
<b>Final Dividend Dates</b>			
Ex-dividend date		Not applicable	
Record date		Not applicable	
Payment date		Not applicable	
Details of any dividend reinvestment plan (DRP) in operation		Not applicable	
The last date for receipt of an election notice for participation in any dividend reinvestment plan		Not applicable	

<b>Net Tangible Liabilities</b>	<b>31 July 2014</b>	<b>31 July 2013</b>
Net tangible assets per security	0.06 cents	0.5 cents

<b>Other information</b>
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 2014 and the attached Annual Financial Report

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**Annual Report**  
**for the financial year ended**  
**31 July 2014**



ACN 063 886 199

## Introduction

On behalf of the Board of Directors of Funtastic Limited we present to you our 2014 Annual Report.

## The Period in Review

The twelve months ended 31 July 2014 had a number of significant challenges however the Board has continued to implement their strategy of growth through the continued 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 and brand builder. This has seen continued growth in revenue and profitability from our own brands on a global basis.

The twelve months ended 31 July 2014 have been more challenging than expected. Whilst there were exceptional results for Chill Factor, this was insufficient to offset the soft performance of some of our core agency brands in a continued soft Australian retail environment. The growth in International markets was substantial, but the benefits were offset by additional costs incurred in changing distributor in the US as well as increased investment to drive the growth.

On the 31<sup>st</sup> July 2014 the company sold the Madman group of companies. The performance of the Madman division was significantly lower than prior year primarily driven by the costs associated converting DVD's from a sale and return basis to consignment. The full impact on the Group's reported result after tax, after taking into account current year's performance, cost to change to consignment and final write-down, was a loss after tax of \$25.7m. The proceeds of the sale have been used to reduce debt and strengthen the balance sheet.

Following a continued soft period of trading in Australia from last financial year, the company commenced a program to reduce Inventory levels at lower than the carrying values. Whilst the program will continue into the next financial year, the carrying value of the Inventory has been reduced to facilitate the various initiatives. This will improve the cash flow and reduce the warehousing costs going forwards.

The Group's reported result under IFRS was a disappointing loss after tax of \$35.7m. The Group's Earnings Before Interest, Depreciation and Amortisation (EBITDA) from continuing operations was a loss of \$820k, compared to profit of \$16.8m in the previous year. The loss includes the write down of inventory and additional costs incurred to clear excess trade inventory.

Despite the poor performance the key achievements during the year which will provide a sound platform to build the business for the future were:

1. Sale of the Madman Entertainment group of companies.
2. Top line growth of 31% in International markets.
3. Top line growth of 37% for own brands.
4. Reduction of Net debt of \$16.8m during the year.

## Outlook

The Board is confident that the company will return to profit in 2015 financial year following a re-alignment of the business structure with greater focus on the key drivers of the business.

Whilst the Australian retail sector is expected to remain soft, the company has strengthened its product portfolio through the addition of brands such as Rainbow Loom, as well as new products within our own and key agency partners which have resulted in a broader customer and consumer base.

Funtastic will continue to experience strong growth outside Australia through its own brands with a continued expansion of the Company's geographic footprint.

There has been a shift in resources in order to improve operating efficiency, develop new products and enhance our brand building capabilities that will not only enhance the long term performance of our own brands but that of our key agency partners.

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



**Shane Tanner**  
Chairman of the Board

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## Company Information

### Directors

Shane Tanner  
*Chairman and Independent Non-Executive Director*

Nir Pizmony  
*Managing Director and Chief Executive Officer (appointed CEO on 1 August 2014)*

Stewart Downs  
*Managing Director and Chief Executive Officer (resigned 31 July 2014)*

Paul Wiegard  
*Executive Director (resigned 31 July 2014)*

Craig Mathieson  
*Non-Executive Director*

Stephen Heath  
*Independent Non-Executive Director*

Linda Norquay  
*Independent Non-Executive Director*

Grant Mackenzie  
*Executive Director (appointed 6 August 2014)*

### Company Secretary

Grant Mackenzie (appointed 1 November 2013)  
James Cody (resigned 1 November 2013)

### 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

## Corporate Governance Statement

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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 2014 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 two executive directors (the Chief Executive Officer and the Chief Finance Officer/Chief Operating Officer). 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 to and which include rules as to the nomination, appointment and re-election of directors. The constitution provides for two of the directors 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 six 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.

Mr Nir Pizmony and Mr Grant Mackenzie 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.



# Corporate Governance Statement

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## Board and Director Independence (continued)

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 being considered.

## Independent Professional Advice

Each director has the right to seek independent professional advice at the expense of Funtastic.

## Independent Professional Advice (continued)

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.

## 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".

## Corporate Governance Statement

### Dealings in Funtastic shares by Directors, Officers and Employees (continued)

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 2014 the group's mix of employees was as follows:

	Female	Male	Total
General employees	48	13	61
Middle managers	11	10	21
Senior managers	9	18	27
Board	1	6	7
<b>Total</b>	<b>69</b>	<b>47</b>	<b>116</b>

### Diversity (continued)

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 Mr Shane Tanner (Chairman), Mr Craig Mathieson, Ms Linda Norquay and Mr 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.

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

# Corporate Governance Statement

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## Audit, Risk and Compliance Committee

The members of the Audit, Risk and Compliance Committee are Mr Craig Mathieson (Chairman), Mr Shane Tanner, Ms Linda Norquay and Mr 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 meet 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;

## Reporting by the Audit, Risk and Compliance Committee (continued)

- 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.

## 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;

## Corporate Governance Statement

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### Recognising and managing risk (continued)

- 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;

### Management Certification Process (continued)

- 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 Mr Stephen Heath (Chairman), Mr Craig Mathieson, Mr Shane Tanner and Ms Linda Norquay.

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

- 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.

## Corporate Governance Statement

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### 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.

## Directors' Report

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### 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 2014.

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

#### Director

##### Shane Tanner

FCPA, ACIS

Chairman and Independent Non-executive director

##### Nir Pizmony

Managing Director and Chief Executive Officer

##### Stewart Downs (Resigned 31 July 2014)

Managing Director and Chief Executive Officer

##### Craig Mathieson

B.Bus

Non-executive director

##### Paul Wiegard (Resigned 31 July 2014)

Executive Director

#### Particulars

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.

Appointed to the board in August 2009 as an Executive director. He was appointed as Chief Executive Officer, succeeding Stewart Downs, effective 1 August 2014. 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.

Joined the Board in August 2009. Mr Downs has been the Chief Executive Officer of Funtastic Limited since February 2009 until his resignation on 31 July 2014.

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.

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 Managing Director 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.

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, until its sale on 31 July 2014. Mr Wiegard is also a Board member of the Australian Video Software Distributors, the Melbourne International Film Festival and the Australian Independent Distributors Association. Mr Wiegard brings an impressive depth of knowledge and experience of the entertainment industry. Mr Wiegard was an executive director until his resignation on 31 July 2014 as a consequence of the sale of Madman Entertainment.

## Directors' Report

### 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.

Mr Heath 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, New Zealand, 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, Myer, David Jones and 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.

Ms 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.

### Grant Mackenzie (Appointed 6 August 2014)

B.Acc, CA, MBA, GAICD

Executive Director

Appointed as Chief Financial Officer and Company Secretary on 1 November 2013, as Chief Operating Officer on 1 August 2014 and joining the Board of Directors on 6 August 2014. Mr Mackenzie has over 20 years experience in various senior executive roles with significant experience in brand management. His most recent role prior to joining Funtastic was the Finance Director for Brown-Forman Australia.

### 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:

<i>Director</i>	<i>Company</i>	<i>Period</i>
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 Mackenzie was appointed to the position of Company Secretary on 1 November 2013. He succeeded Mr James Cody, who resigned on the same date.

### Principal activities

The Group's principal continuing activity during the period was as a brand builder and distributor of toys, sporting, confectionary and homeware products, operating globally.

## Directors' Report

### 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 operations

#### Key strategic achievements:

- Continued expansion and development of the Chill Factor™ brand.
- Continued success of Funtastic owned brands and intellectual property, revenue up 36%.
- Sale of Madman Entertainment.
- International business growth.
- Reduction of debt by \$16.8m.

#### Key operating achievements:

- Restructured focussed company structure.
- Expanded range of Chill Factor™ products.
- Exciting development of Pillow Pets, and stationery lines.
- Building a stronger manufacturing capability in Hong Kong and China.
- Initiation of Inventory reduction program.
- Strengthened operating procedures.

#### Key financial results continuing operations:

- NPAT<sup>(i)</sup> loss of \$10.0m.
- EBITDA<sup>(i)</sup> loss of \$0.8m.
- Finance costs fall by 31% to \$4.1m.
- Underlying borrowings reduced by \$16.8m.

### Key Financials (Continuing Activities)

AUDm	FY14	FY13	% Change
Revenue	124.6	115.7	↑8%
EBITDA <sup>(i)</sup>	(0.8)	16.0	↓105%
PBT <sup>(i)</sup>	(9.3)	6.4	↓246%
NPAT <sup>(i)</sup>	(10.0)	8.6	↓216%
Basic EPS (cents)	(1.51)	1.60	↓194.9%
Dividend per share (cents)	N/A	0.10	N/A
ROE <sup>(ii)</sup>	(41.8)%	16%	↓57.8%
Net Debt (\$m)	31.7	48.6	↓35%
Gearing <sup>(iii)</sup>	47%	47%	-

<sup>(i)</sup>Includes \$1.6m gain on sale of QuickSmart IP and assets in March 2014 (2013: includes \$3.3m gain on early settlement of deferred acquisition consideration);

<sup>(ii)</sup>NPAT/average shareholder equity;

<sup>(iii)</sup>Net debt/shareholder equity;

<sup>(iv)</sup>Net Debt/EBITDA;

<sup>(v)</sup>EBIT/finance cost;



## Directors' Report

### Outlook

The Board is confident that performance will improve in FY15, where there were a number of significant costs incurred in FY14 and where improved controls will avoid similar expenditure in the future. The Company structure has been stream-lined to provide greater focus on the key issues of the business.

The overall retail environment is not expected to improve dramatically, however the Company has strengthened its portfolio enabling growth in a broader customer and consumer base. The growth in International markets will continue with additional new products, line extensions and additional markets.

### Dividends

During the year, the Directors declared and paid a final dividend on the 27 November 2013 for the year ended 31 July 2013 of 0.5 cents per share. In respect of the financial year ended 31 July 2014, no dividends have been declared.

### 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

#### Options granted to directors and executives of the Company

During or since the end of the financial year, the Company granted options for no consideration over unissued ordinary shares in the Company to the following Directors and Executives, as part of their remuneration:

<i>Directors and executives</i>	<i>Number of options granted during the year</i>	<i>Number of ordinary shares under option</i>
<b>Directors</b>		
P. Wiegard	100,000	-
N. Pizmony	6,333,333	5,000,000
<b>Executives</b>		
T. Anderson	100,000	-
G. Mackenzie	300,000	300,000
P.S. Lopez	1,000,000	1,200,000

<sup>(i)</sup> The 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 in the Notes to the financial statements. Further details on the ESLS are set out in Note 35 of the financial statements.

### Unissued shares under option

At the date of this report, unissued shares of the Company under option are:

(a) *Executive share options (ESOPs) – Nil balance*

<i>KMP</i>	<i>Number of options held</i>	<i>Date of forfeiture</i>	<i>Forfeited shares</i>	<i>Vested, forfeited shares</i>	<i>Share price at forfeiture date</i>	<i>Exercise price</i>	<i>Value of forfeited options</i>
Stewart Downs	4,000,000	31/07/2014	4,000,000	1,333,333	\$0.077	\$0.135	-
James Cody	1,000,000	31/07/2014	1,000,000	-	\$0.077	\$0.207	-
<b>Total</b>	<b>5,000,000</b>		<b>5,000,000</b>	<b>1,333,333</b>			<b>-</b>

## Directors' Report

### Unissued shares under option

(b) *Employee share loan scheme (ESLS)*

<i>Grant date</i>	<i>Number of shares</i>	<i>Exercise price<sup>(i)</sup></i>	<i>Vesting date</i>	<i>Expiry date<sup>(ii)</sup></i>
8 July 2013	1,000,000	\$0.1599	1 January 2016	N/A
27 January 2014	1,700,000	\$0.1660	6 November 2016	N/A
	<b>2,700,000</b>			

Of the 2,400,000 options granted on 8 July 2013, 1,400,000 had been forfeited due to resignations of employment. On 27 January 2014, 2,200,000 options were granted. Out of these, 500,000 had been forfeited due to resignations of employment. None of these forfeited shares had vested and they had a nil value at the forfeited dates.

(c) *Unissued options*

<i>Grant date</i>	<i>Number of shares</i>	<i>Exercise price</i>	<i>Vesting date</i>	<i>Expiry date</i>
23 December 2013	2,500,000	\$0.100	31 December 2013	31 December 2014
23 December 2013	2,500,000	\$0.135	31 December 2013	31 December 2014
	<b>5,000,000</b>			

On 23 December 2013, unlisted options of 6,333,333 were issued to Mr Nir Pizmony with shareholder approval as an incentive component of Mr Nir Pizmony's remuneration package. On 10 August 2014, 1,333,333 vested options have expired.

<sup>(i)</sup> Refer to Note 35 of the accompanying notes for further details on the ESLS exercise price

<sup>(ii)</sup> 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.

### Meetings of Directors

The number of meetings of the Company's directors held during the year ended 31 July 2014 and the number of meetings attended by each director were:

	<i>Remuneration Committee</i>		<i>Board of directors</i>		<i>Audit, Risk and Compliance Committee</i>	
	<b>A</b>	<b>B</b>	<b>A</b>	<b>B</b>	<b>A</b>	<b>B</b>
S Tanner	1	1	11	12	2	2
S Downs	-	-	11	12	-	-
C Mathieson	1	1	10	12	2	2
N Pizmony	-	-	10	12	-	-
L Norquay	1	1	12	12	2	2
S Heath	1	1	10	12	2	2
P Wiegard	-	-	10	12	-	-

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

Columns 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' Report

### 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:

<i>Director</i>	<i>Issuing entity</i>	<i>Ordinary Shares</i>	<i>Share Options</i>
S Tanner	Funtastic Limited	500,000	-
S Downs	Funtastic Limited	2,672,776	-
C Mathieson	Funtastic Limited	111,382,853	-
N Pizmony	Funtastic Limited	29,238,601	5,000,000
S Heath	Funtastic Limited	666,667	-
P Weigard	Funtastic Limited	1,900,698	-
L Norquay	N/A	-	-
G Mackenzie	Funtastic Limited	3,568,405	300,000

### Option holdings

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

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.

### Changes in state of affairs

On 31 July 2014, the Company executed and completed a sale agreement to dispose of Madman Entertainment ("Madman"). The sale consideration was \$21,500,000, plus or minus 'Working Capital Adjustment' (amount by which Completion Working capital exceeds or less than the Target Working Capital of \$14,143,000). The loss recognised in these financial statements is \$23,824,000.

Other than the above, there was no significant change in the state of affairs of the consolidated entity during the financial year.

### 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 38 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 38 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.

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.

## Directors' Report

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### 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:

<b>Name</b>	<b>Position</b>	<b>Period in position during the year</b>
Shane Tanner	Chairman and Independent Non-executive Director	Full year
Stewart Downs	Managing Director and Chief Executive Officer	Resigned 31 July 2014
Craig Mathieson	Non-executive Director	Full year
Nir Pizmony	Executive Director	Full year
	Managing Director and Chief Executive Officer	Appointed 1 August 2014
Stephen Heath	Independent Non-executive Director	Full year
Linda Norquay	Independent Non-executive Director	Full year
Paul Wiegard	Executive Director	Resigned 31 July 2014
Tim Anderson	Joint Managing Director – Madman Entertainment	Resigned 31 July 2014
James Cody	Chief Financial Officer & Company Secretary	Resigned 1 November 2013
Pedro Sangil Lopez	Group Manager – Asia	Full year
Grant Mackenzie	Chief Financial Officer & Company Secretary	Appointed 1 November 2013
	Chief Operating Officer	Appointed 6 August 2014

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### 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.

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.

#### *Compensation and company performance*

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. Other measures include revenue growth, return on average funds employed, net operating cash flow, total shareholder return and other business objectives.

In 2014 no Short Term Incentive ('STI') eligible payments were made (2013:\$nil).

## Directors' Report

### Remuneration Report (Audited) (continued)

#### Compensation and company performance (continued)

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 <sup>(iii)</sup> 31 July 2014	Year ended <sup>(iii)</sup> 31 July 2013	Year ended <sup>(iii)</sup> 31 July 2012	Year ended <sup>(iii)</sup> 31 July 2011	7 months <sup>(iii)</sup> ended 31 July 2010
NPAT (\$'000) <sup>(i)</sup>	(35,707)	13,962	10,436	(38,205)	(3,579)
EPS Basic (Cents) <sup>(ii)</sup>	(5.39)	2.58	2.77	(11.2)	(1.05)
Diluted EPS (Cents) <sup>(ii)</sup>	(5.39)	2.57	2.77	(11.2)	(1.05)
Total Dividends (\$'000)	3,335	2,702	Nil	Nil	Nil
Year End Share Price (\$)	0.077	0.17	0.16	0.07	0.22
Shares on Issue (No.)	669,869,723	644,569,723	537,799,605	340,997,682	340,997,682
Market Capitalisation (\$'000)	51,580	109,577	86,048	23,870	75,019

<sup>(i)</sup>NPAT from group operations

<sup>(ii)</sup>Basic & Diluted EPS from group operations

<sup>(iii)</sup>Includes Madman Entertainment group of companies

### 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.

#### 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 STI is weighted where 50% is payable in the event that the Group's earnings before interest, tax, depreciation and amortisation (EBITDA) for the 12 months from 1 August 2013 to 31 July 2014 exceeds the groups financial objectives and 50% where EBITDA exceeds the growth stretch target. Each individual's bonus is based on a percentage of their total package as follows:

- Stewart Downs	50%	- Paul Wiegard	50%
- Nir Pizmony	50%	- Tim Anderson	50%
- Grant Mackenzie	40%	- Pedro Sangil Lopez	30%

## Directors' Report

### Remuneration Report (Audited) (continued)

#### Remuneration of Key Management Personnel compensation

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

Year ended 31 July 2014	Short-term employee benefits			Post-employment benefits	Other long-term employee benefits	Termination Benefits	Share-based payments		Total	Consisting of options /PSRs %
	Salary and fees	Cash Bonus	Non-monetary benefits	Superannuation	Long service leave		Options	Options Under Employee Share loan scheme		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Directors</b>										
Shane Tanner	123,600	-	-	-	-	-	-	-	123,600	0.00%
Stewart Downs	487,750	-	16,378	51,380	(17,735)	328,781	-	(807)	865,747	(0.01)%
Craig Mathieson	56,697	-	-	5,261	-	-	-	-	61,958	0.00%
Nir Pizmony	377,982	-	-	35,072	10,294	-	256,766	-	680,114	37.75%
Stephen Heath	61,957	-	-	220	-	-	-	-	62,177	0.00%
Linda Norquay	61,800	-	-	-	-	-	-	-	61,800	0.00%
Paul Wiegard	321,101	-	-	29,794	6,845	-	-	(403)	357,337	(0.01)%
<b>Sub-Totals</b>	<b>1,490,887</b>	<b>-</b>	<b>16,378</b>	<b>121,727</b>	<b>(596)</b>	<b>328,781</b>	<b>256,766</b>	<b>(1,210)</b>	<b>2,212,733</b>	<b>11.97%</b>
<b>Executives</b>										
James Cody <sup>(i)</sup>	94,953	-	-	8,652	(1,560)	154,855	-	(403)	256,497	(0.01)%
Tim Anderson	317,956	-	797	26,515	6,845	-	-	(403)	351,710	(0.01)%
Pedro Sangil Lopez	207,170	53,349	-	2,591	-	-	-	14,760	277,870	5.31%
Grant Mackenzie <sup>(ii)</sup>	234,114	-	-	21,748	-	-	-	3,234	259,096	1.24%
<b>Sub-Totals</b>	<b>854,193</b>	<b>53,349</b>	<b>797</b>	<b>59,506</b>	<b>5,285</b>	<b>154,855</b>	<b>-</b>	<b>17,188</b>	<b>1,145,173</b>	<b>1.61%</b>
<b>TOTALS</b>	<b>2,345,080</b>	<b>53,349</b>	<b>17,175</b>	<b>181,233</b>	<b>4,689</b>	<b>483,636</b>	<b>256,766</b>	<b>15,978</b>	<b>3,358,906</b>	<b>8.51%</b>

(i) 3 months.

(ii) 9 months.

## Directors' Report

### Remuneration Report (Audited) (continued)

#### Remuneration of Key Management Personnel compensation

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

Year ended 31 July 2013	Short-term employee benefits			Post-employment benefits	Other long-term employee benefits	Termination Benefits \$	Share-based payments		Total \$	Consisting of options / PSRs %
	Salary and fees \$	Cash Bonus \$	Non-monetary benefits \$	Superannuation \$	Long service leave \$		Options \$	Options Under Employee Share loan scheme \$		
<b>Directors</b>										
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
<b>Sub-Totals</b>	<b>1,487,378</b>	-	-	<b>96,182</b>	<b>8,716</b>	-	<b>5,504</b>	<b>1,210</b>	<b>1,598,990</b>	<b>0.42</b>
<b>Executives</b>										
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
<b>Sub-Totals</b>	<b>864,241</b>	-	-	<b>48,334</b>	<b>6,406</b>	-	<b>12,612</b>	<b>1,209</b>	<b>932,802</b>	<b>1.48</b>
<b>TOTALS</b>	<b>2,351,619</b>	-	-	<b>144,516</b>	<b>15,122</b>	-	<b>18,116</b>	<b>2,419</b>	<b>2,531,792</b>	<b>0.81</b>

## Directors' Report

### Remuneration Report (Audited) (continued)

#### Share Options/Share Performance Right Plans

The Company's long-term incentive arrangements (LTI) 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:

<i>Share-based payment</i>	<i>Series</i>	<i>Grant date</i>	<i>Expiry date</i>	<i>Grant date average fair value</i>	<i>Number of shares at 31 July 2014</i>	<i>Vesting date</i>	<i>Performance conditions</i>
Share option	ESOP 33 <sup>(i)</sup>	20/03/2008	02/09/2013	\$0.115	-	31/08/2011	2
Share option	ESOP 35	21/08/2009	10/08/2014	\$0.072	1,333,333	21/08/2012 09/11/2011 & 09/11/2012	3
Share option	ESOP 37	01/04/2010	01/04/2015	\$0.119	-	09/11/2012	4
Share option	ESLS <sup>(ii),(iii)</sup>	08/07/2013	N/A	\$0.1599	200,000	01/01/2016	N/A
Share option	ESLS <sup>(ii),(iii)</sup>	27/01/2014	N/A	\$0.1660	1,300,000	06/11/2016	N/A
Share option	Unlisted <sup>(ii)</sup>	23/12/2013	10/08/2014	\$0.1350	1,333,333	23/12/2014	N/A
Share option	Unlisted <sup>(ii)</sup>	23/12/2013	31/12/2014	\$0.1000	2,500,000	31/12/2014	N/A
Share option	Unlisted <sup>(ii)</sup>	23/12/2013	31/12/2014	\$0.1350	2,500,000	31/12/2014	N/A
<b>Total</b>					<b>9,166,666</b>		

<sup>(i)</sup>Executive Share option (ESOP) series 33 lapsed on 2 September 2013. No options were exercised. The fair value of these options at 2 September 2013 was \$nil.

<sup>(ii)</sup>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 for tranche 1 and 6 November 2016 for tranche 2. The design of the ESLS is to link executive compensation with continuing service commitment to Funtastic and growth in shareholder value.

<sup>(iii)</sup>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 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:

- in year 1 the share price to be no less than 17 cents;
- in year 2 the share price to be no less than 23 cents; and
- 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.



## Directors' Report

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### Remuneration Report (Audited) (continued)

#### **Share Options - Performance condition 3 (type 3) (continued)**

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 2013 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, which are held until the exercise date of the option under which they were purchased

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 the 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 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.

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 for Tranche 1 and 6 November 2016 for Tranche 2. The options become exercisable only when the vesting conditions are met. (See Note 35)

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 ESLSs interest free limited recourse loan are set out in Note 35 of the financial statements.

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

## Directors' Report

### Remuneration Report (Audited) (continued)

#### Shares provided on exercise of remuneration options

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

#### Key management personnel equity holdings

The number of ordinary shares and 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.

#### Share options

Year ended 31 July 2014	Balance at the start of the year	Granted during the year	Shares expired during the year	Shares forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
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#### Executive Directors

Stewart Downs	4,600,000	-	(200,000)	(3,066,667)	1,333,333	1,333,333
Nir Pizmony	-	6,333,333	-	-	6,333,333	-
Paul Weigard	200,000	100,000	-	(300,000)	-	-

#### Executives

Tim Anderson	200,000	100,000	-	(300,000)	-	-
James Cody	1,200,000	-	-	(1,200,000)	-	-
Pedro Sangil Lopez	200,000	1,000,000	-	-	1,200,000	-
Grant Mackenzie	-	300,000	-	-	300,000	-
<b>Totals</b>	<b>6,400,000</b>	<b>7,833,333</b>	<b>(200,000)</b>	<b>(4,866,667)</b>	<b>9,166,666</b>	<b>1,333,333</b>

Year ended 31 July 2013	Balance at the start of the year	Granted During the year	Shares expired during the year	Shares forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
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#### Executive Directors

Stewart Downs	4,200,000	400,000	-	-	4,600,000	1,333,333
Nir Pizmony	-	-	-	-	-	-
Paul Wiegard	-	200,000	-	-	200,000	-
Grant Mackenzie	-	-	-	-	-	-

#### Executives

Tim Anderson	-	200,000	-	-	200,000	-
James Cody	1,000,000	200,000	-	-	1,200,000	-
Pedro Lopez	-	200,000	-	-	200,000	-
<b>Totals</b>	<b>5,200,000</b>	<b>1,200,000</b>	<b>-</b>	<b>-</b>	<b>6,400,000</b>	<b>1,333,333</b>

#### 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 (2013: nil).

## Directors' Report

### Remuneration Report (Audited) (continued)

#### Key management personnel equity holdings (continued)

##### Ordinary shares

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 2014	Balance at the start of the year	Shares purchased privately during the year	Disposal during the year	Balance at the end of the period
<b>Directors</b>				
Shane Tanner	400,000	100,000	-	500,000
Stewart Downs <sup>(i)</sup>	-	-	-	-
Nir Pizmony	30,185,131	-	(946,530)	29,238,601
Craig Mathieson	111,382,853	-	-	111,382,853
Steven Heath	666,667	-	-	666,667
Linda Norquay	-	-	-	-
Paul Wiegard <sup>(i)</sup>	-	-	-	-
<b>Executives</b>				
James Cody <sup>(i)</sup>	-	-	-	-
Tim Anderson <sup>(i)</sup>	-	-	-	-
Pedro Sangil Lopez	-	3,634,733	-	3,634,733
Grant Mackenzie	-	3,568,405	-	3,568,405
Totals	142,634,651	7,303,138	(946,530)	148,991,259

Year ended 31 July 2013	Balance at the start of the year	Shares purchased privately during the year	Disposal during the year	Balance at the end of the period
<b>Directors</b>				
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	111,382,853	-	-	111,382,853
Steven Heath	666,667	-	-	666,667
Linda Norquay	-	-	-	-
Paul Wiegard	1,900,698	-	-	1,900,698
<b>Executives</b>				
James Cody	-	-	-	-
Tim Anderson	1,555,870	-	-	1,555,870
Pedro Sangil Lopez	-	-	-	-
Totals	149,263,995	-	(500,000)	148,763,995

(i) Resigned during the year ended 31 July 2014

## Directors' Report

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### Remuneration Report (Audited) (continued)

#### **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 service agreements relating to the remuneration of Directors and Executives 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 and Chief Executive Officer (resigned 31 July 2014)**

- 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. As Managing Director, Chief Executive Officer (appointed 1 August 2014)**

- 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.

#### **Paul Wiegard – Executive Director (resigned 31 July 2014)**

- 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 and Company Secretary (resigned 1 November 2013)**

- 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 (resigned 31 July 2014)**

- 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

## Directors' Report

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### Remuneration Report (Audited) (continued)

#### *Service Agreements (continued)*

**Grant Mackenzie - Chief Financial Officer & Company Secretary (appointed 1 November 2013). As Chief Operating Officer (appointed 6 August 2014)**

- 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 12 weeks base salary.
- Notice period 12 weeks.

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 2014

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

30 September 2014

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.

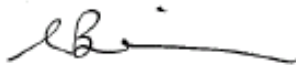
As lead audit partner for the audit of the financial statements of Funtastic Limited for the financial year ended 31 July 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (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

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## 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 statement of financial position as at 31 July 2014, the statement of profit or loss and other comprehensive income, the statement of cash flows and the 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 31 to 90.

#### *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.

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

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# Deloitte.

## *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 2014 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**

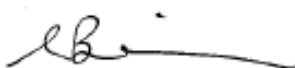
We have audited the Remuneration Report included in pages 18 to 27 of the directors' report for the year ended 31 July 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our 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 2014, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Chris Biermann  
Partner  
Chartered Accountants  
Melbourne, 30 September 2014



## Directors' Declaration

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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 32 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 2014

## Consolidated Statement of Profit or Loss and other Comprehensive Income for the year ended 31 July 2014

	Note	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
<b>Continuing operations</b>			
Revenue	6	124,589	115,738
Cost of goods sold		(90,689)	(72,688)
Gross profit		33,900	43,050
Investment income	7	619	612
Warehouse and distribution expenses		(8,678)	(8,173)
Marketing and selling expenses		(11,579)	(10,385)
Administration expenses		(16,652)	(12,330)
Gain on early settlement of deferred consideration		-	3,272
Gain on sale of QuickSmart		1,570	-
Earnings before interest, taxation, depreciation and amortisation expenses (EBITDA)		(820)	16,046
Finance costs	9	(4,052)	(5,852)
Depreciation and amortisation expenses	7	(4,418)	(3,817)
<b>(Loss) profit before income tax</b>		<b>(9,290)</b>	6,377
Income tax benefit (expense)	8	(720)	2,248
<b>(Loss) profit for the year from continuing operations</b>		<b>(10,010)</b>	8,625
<b>Discontinued operation</b>			
<b>(Loss) profit from discontinued operation, net of tax</b>	5	<b>(25,697)</b>	5,337
<b>(Loss) profit for the year</b>		<b>(35,707)</b>	13,962
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Exchange differences arising on translation of foreign operations		37	173
(Loss) profit on cash flow hedges taken to equity		(359)	1,962
Other comprehensive (loss) income for the year (net of tax)		(322)	2,135
<b>Total comprehensive (loss) income for the year attributable to members of Funtastic</b>		<b>(36,029)</b>	16,097
<b>Earnings per share</b>			
Basic earnings per share (cents per share)	28	(5.39)	2.58
Diluted earnings per share (cents per share)	28	(5.39)	2.57
<b>Earnings per share – continuing operations</b>			
Basic earnings per share (cents per share)	28	(1.51)	1.60
Diluted earnings per share (cents per share)	28	(1.51)	1.59

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

## Consolidated Statement of Financial Position as at year ended 31 July 2014

	Note	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
<b>Current Assets</b>			
Cash	33	4,909	4,305
Trade and other receivables	10	17,138	36,024
Inventories	11	16,375	23,964
Other financial assets	13	-	1,552
Other assets	12	7,853	10,362
Current tax assets	8	5	139
<b>Total Current Assets</b>		<b>46,280</b>	<b>76,346</b>
<b>Non-Current Assets</b>			
Plant and equipment	14	1,568	2,919
Goodwill	15	49,995	78,845
Other intangibles	16	17,379	21,049
Deferred tax assets	8	12,654	12,876
Other investment		29	-
Other assets	12	469	15,765
<b>Total Non-Current Assets</b>		<b>82,094</b>	<b>131,454</b>
<b>Total Assets</b>		<b>128,374</b>	<b>207,800</b>
<b>Current Liabilities</b>			
Trade payables	18	17,280	19,968
Borrowings	19	29,357	43,169
Provisions	20	884	1,830
Deferred purchase consideration	21	-	924
Other liabilities	22	4,584	20,411
Other financial liabilities	23	180	663
<b>Total Current Liabilities</b>		<b>52,285</b>	<b>86,965</b>
<b>Non-Current Liabilities</b>			
Borrowings	19	7,299	9,708
Provisions	20	485	1,093
Deferred tax liabilities	8	235	6,300
Other liabilities	22	310	787
<b>Total Non-Current Liabilities</b>		<b>8,329</b>	<b>17,888</b>
<b>Total Liabilities</b>		<b>60,614</b>	<b>104,853</b>
<b>Net Assets</b>		<b>67,760</b>	<b>102,947</b>
<b>Equity</b>			
Issued capital	25	208,372	204,497
Accumulated losses	26	(141,515)	(102,473)
Reserves	27	903	923
<b>Total Equity</b>		<b>67,760</b>	<b>102,947</b>

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

## Consolidated Statement of Changes in Equity as at year ended 31 July 2014

	Share Capital \$'000	Accumulated Losses \$'000	Foreign Currency Translation Reserve \$'000	Equity-settled Employee Benefits Reserve \$'000	Cash Flow Hedging Reserve \$'000	Total \$'000
<b>Balance at 1 August 2012</b>	<b>186,725</b>	<b>(113,733)</b>	<b>(1,186)</b>	<b>1,616</b>	<b>(1,665)</b>	<b>71,757</b>
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
<b>Balance at 31 July 2013</b>	<b>204,497</b>	<b>(102,473)</b>	<b>(1,013)</b>	<b>1,639</b>	<b>297</b>	<b>102,947</b>
Payment of Dividends	-	(3,335)	-	-	-	(3,335)
Loss for the year	-	(35,707)	-	-	-	(35,707)
Other comprehensive loss	-	-	37	-	(359)	(322)
Total comprehensive (loss) income	-	(35,707)	37	-	(359)	(36,029)
Recognition of share-based payments	-	-	-	302	-	302
Issue of ordinary shares re Chill Factor Global acquisition	3,875	-	-	-	-	3,875
<b>Balance at 31 July 2014</b>	<b>208,372</b>	<b>(141,515)</b>	<b>(976)</b>	<b>1,941</b>	<b>(62)</b>	<b>67,760</b>

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

## Consolidated Statement of Cash Flows for the year ended 31 July 2014

	Note	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
<b>Cash Flows from Operating Activities</b>			
Receipts from customers		167,558	151,584
Payments to suppliers and employees		(162,268)	(140,393)
Cash generated from operations		5,290	11,191
Income taxes paid		(76)	(311)
Interest and other costs of finance paid		(3,432)	(5,266)
<b>Net cash inflow from operating activities</b>	33(c)	<b>1,782</b>	5,614
<b>Cash Flows from Investing Activities</b>			
Interest and other investment income received		619	612
Payments for acquisition of businesses		(529)	(5,133)
Payments for plant and equipment		(198)	(2,072)
Payments for other intangible assets		(2,894)	(3,422)
Proceeds from sale of business	5, 33(d)	21,861	-
Proceeds from sale of plant and equipment		-	1
<b>Net cash inflow (outflow) from investing activities</b>		<b>18,859</b>	(10,014)
<b>Cash Flows from Financing Activities</b>			
Proceeds from issue of shares		-	18,287
Proceeds from borrowings		2,700	5,000
Repayment of borrowings		(19,469)	(13,121)
Dividends paid to owners of the Company		(3,283)	(2,687)
Borrowings transaction costs		(130)	(156)
Share issue transaction costs		-	(736)
<b>Net cash (outflow) inflow from financing activities</b>		<b>(20,182)</b>	6,587
<b>Net increase in Cash Held</b>		<b>459</b>	2,187
Cash and cash equivalents at the beginning of the year		4,305	2,257
Effects of exchange rate changes on the balance of cash held in foreign currencies		145	(139)
<b>Cash and cash equivalents at the end of the year</b>	33	<b>4,909</b>	4,305

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

## Notes to the Financial Statements 31 July 2014

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### 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 may have affected the amounts reported in these financial statements.

##### a) Standards affecting presentation and disclosure

###### (i) AASB 13 'Fair value measurement' (2011)

AASB 13 provides a single source of guidance on how fair value is measured and disclosed, and replaces the fair value measurement guidance that is currently dispersed throughout Australian Accounting Standards. The scope of AASB 13 is broad; the fair value measurement requirements of AASB 13 apply to both financial instrument and non-financial instrument items for which other AASBs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of AASB 2 'Share-based Payment', leasing transactions that are within the scope of AASB 117 'Leases', and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes). The Group has applied AASB 13 for the first time in the current financial year.

###### (ii) AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'

AASB 2011-4 removes the individual key management personnel disclosure requirements in AASB 124 'Related Party Disclosures'. As a result, the Group only discloses the key management personnel compensation in total and for each of the categories required in AASB 124.

In the current year, the individual key management personnel disclosure previously required by AASB 124, is now disclosed in the remuneration report due to an amendment to Corporations Regulations 2001 issued in June 2011.

##### b) Standards and Interpretations affecting the reported results or financial position

###### (i) AASB 10 'Consolidated Financial Statements'

AASB 10 replaces the parts of AASB 127 'Consolidated and Separate Financial Statements' that deal with consolidated financial statements and Interpretation 112 'Consolidation – Special Purpose Entities'. AASB 10 changes the definition of control such that an investor controls an investee when (i) it has power over an investee; (ii) it is exposed, or has rights, to variable returns from its involvement with the investee; and (iii) has the ability to use its power to affect returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in AASB 10 to explain when an investor has control over an investee.

AASB 10 does not have a material impact on the reported results or financial position as entities that are not wholly-owned are dormant or not operational.

###### (ii) AASB 12 'Disclosure of Interests in Other Entities'

AASB 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of AASB 12 has resulted in more extensive disclosures in the consolidated financial statements

AASB 12 does not have a material impact on the reported results or financial position as entities that are not wholly-owned are dormant or not operational.

## Notes to the Financial Statements 31 July 2014

### NOTE 1: Application of new and revised Accounting Standards (continued)

#### 1.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards 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 <sup>(i)</sup>	1 January 2017	31 July 2018
AASB 1031 'Materiality' (2013)	1 January 2014	31 July 2015
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	31 July 2015
AASB 2013-3 'Amendments to AASB 136-Recoverable Amount Disclosures for Non-Financial Assets'	1 January 2014	31 July 2015
AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting'	1 January 2014	31 July 2015
AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'	1 January 2014	31 July 2015
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'	1 January 2014	31 July 2015
INT 21 'Levies'	1 January 2014	31 July 2015
AASB 2014-1 'Amendments to Australian Accounting Standards'		
- Part A: 'Annual Improvements 2010-2012 and 2011-2013 Cycles'		
- Part B: 'Defined Benefit Plans: Employee Contributions (Amendments to AASB 119)'		
- Part C: 'Materiality'	1 July 2014	31 July 2015
AASB 2014-1 'Amendments to Australian Accounting Standards'- Part D: 'Consequential Amendments' arising from AASB 14'	1 January 2016	31 July 2017
AASB 2014-1 'Amendments to Australian Accounting Standards' – Part E: 'Financial Instruments'	1 January 2015	31 July 2016
AASB 14 'Regulatory Deferral Accounts'	1 January 2016	31 July 2017

<sup>(i)</sup>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'.

In December 2013 the AASB issued AASB 2013-9 'Amendment to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments', Part C – 'Financial Instruments' This amending standard has amended the mandatory effective date of AASB 9 to 1 January 2017. For annual reporting periods beginning before 1 January 2017, an entity may early adopt either AASB 9 (December 2009) or AASB 9 (December 2010) and the relevant amending standards.

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.

The potential impact of the above Standards on the reported results or financial position are yet to be assessed.

## Notes to the Financial Statements 31 July 2014

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### NOTE 1: Application of new and revised Accounting Standards (continued)

#### 1.2 Standards and Interpretations in issue not yet adopted (continued)

<b>Standard/Interpretation</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Expected to be initially applied in the financial year ending</b>
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016	31 July 2017
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	1 January 2016	31 July 2017
IFRS 15 ' <i>Revenue from Contracts with Customers</i> '	1 January 2017	31 July 2018

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## Notes to the Financial Statements 31 July 2014

### 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 2014.

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 the poor performance in the current financial year, the loss from continuing operations of \$9,290,000 (2013: profit \$6,377,000) was primarily driven by a write-down in the carrying value of the inventory and additional discounts to clear excess retail inventory.

The sale of Madman Entertainment at the end of the financial year has enabled the Group to restructure the organisation, continue to develop and grow owned brands and drive growth of the key agency brands. Various initiatives have been implemented which will reduce the operational costs in the longer term and improve the working capital of the business.

The sale of Madman Entertainment has also enabled the Group to significantly reduce its debt. The Group is currently in the process of undertaking a review of its borrowing facilities with the objective of establishing appropriate facilities that are aligned with the future growth plans of the company. This review is being undertaken with the support of the National Australia Bank.

### Going concern basis (continued)

Whilst there is a net current asset deficiency of \$6,005,000 (2013: \$10,619,000), the financial statements have been prepared on a going concern basis, due to the fact that of the total current borrowings of \$36,656,000 (2013: \$52,877,000), \$25,427,000 (2013: \$30,479,000) relate to trade finance facilities that will be available to the Group until at least 31 October 2015.

The Group had operating cash inflows of \$1,782,000 for the period (2013: \$5,614,000), and is expected to return to a profit with steady long term growth, improved working capital and continuing reduction of debt.

#### **(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 when the Company:

- Has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive

## Notes to the Financial Statements 31 July 2014

### (a) Basis of consolidation (continued)

income from the date the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interest having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-Group assets and liabilities, equity, income and expenses and cash flows relating to transactions between members of the Group 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 or receivable 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.

### (b) Income tax (continued)

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.

#### (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/revenue, 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 8 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.

## Notes to the Financial Statements 31 July 2014

### (c) Foreign currency translation (continued)

#### (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 profit or loss presented are translated at the average exchange rates (unless this is not a reasonable approximation of the

#### (iii) Group companies (continued)

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 profit or loss 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.

### (e) Revenue (continued)

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.

### (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) 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 plant and equipment 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 - 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 the receivables. The amount of the allowance is recognised in the profit or loss.

### (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

## Notes to the Financial Statements 31 July 2014

### (j) Trade payables (continued)

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:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of

### (k) Goods and services tax (continued)

the cost of acquisition of an asset or as part of an item of expense; or

- for receivables and payables which are recognised inclusive of GST.

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 incidental 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 24). A leased asset and a 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. Leased 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) and reduction of the liability.

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

### (l) Leased Non-Current Assets (continued)

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 over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### (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 (vesting period).

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.

### (n) Borrowings

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

## Notes to the Financial Statements 31 July 2014

### (n) Borrowings (continued)

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;

### (o) Borrowing costs (continued)

- 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 at 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.

### (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

### (q) Business combinations (continued)

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 'Non-current 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.

## Notes to the Financial Statements 31 July 2014

### (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. Intangible assets are amortised as follows:

• Software	3-7 years
• Patents	20 years
• Trademarks	10-15 years
• Licensed distribution agreements	1-3 years
• Brand names	Indefinite

### (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.

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 groups of CGUs) pro-rata on the basis of the carrying amount of each asset in the CGU (or groups of CGUs). An impairment loss recognised for goodwill is recognised

### (s) Goodwill (continued)

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 34 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.

#### (i) 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 34 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 other comprehensive income.

## Notes to the Financial Statements 31 July 2014

### (t) Derivative financial instruments (continued)

#### (i) Cash flow hedges (continued)

Amounts accumulated in equity are recycled in the statement of profit or loss 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 statement of profit or loss. 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 statement of profit or loss.

### (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 which 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.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement 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. Fair value is determined in the manner described in Note 34.

#### (i) 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

### (u) Financial assets (continued)

#### (i) Impairment of financial assets (continued)

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 to 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

#### (i) 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.

#### (ii) 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 34.

#### (iii) 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.

## Notes to the Financial Statements 31 July 2014

### (w) Provisions (continued)

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 received 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 be derived 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 through profit or loss.

### (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 CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be identified.

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

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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) 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 (CGU) 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 (CGU) in prior years.

### (z) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

The assets or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group, is first allocated to goodwill, and then to remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to inventories, financial assets and deferred tax assets which continue to be measured in accordance with the Group's other accounting policies. Gains or losses on disposal are recognised in profit or loss.



## Notes to the Financial Statements 31 July 2014

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### (aa) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes, based on the methods as stated below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

In estimating the fair value of an asset or liability, the Group uses market observable data to the extent it is available. Where it is not available, the Group engages third party qualified valuers to perform the valuation.

The fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability.

An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

To increase consistency and comparability in fair value measurements and related disclosures, the Company has adopted the fair value hierarchy established in AASB 13 '*Fair Value Measurement*' that categorises fair value measurement into three levels:

- 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).

Valuation techniques used to measure fair value shall be applied consistently. However, a change in a valuation technique or its application (eg a change in its weighting when multiple valuation techniques are used or a change in an adjustment applied to a valuation technique) is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances.

## Notes to the Financial Statements 31 July 2014

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### 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.

##### *i) Impairment of goodwill in continuing business segments*

The Group tests annually or when impairment indicators are identified, whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amount of the Funtastic Australia and Funtastic Brands cash-generating units have been determined based on fair value less cost to sell calculations. The Madman CGU was disposed of during the financial year. These calculations require the use of assumptions. A significant change to these assumptions may affect the recoverable amount of the cash generating units.

##### *ii) 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 12) on an annual basis. The Group takes into account current and projected market sell through in assessing the recoverability of royalty commitments.

##### *iii) Settlement of license audits*

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 royalty payable. The final amounts payable will be subject to negotiation with the licensor and may differ to the amounts provided for.

##### *iv) Recoverability of inventory*

The Group periodically assesses whether the net realisable value (NRV) of its inventories is reasonable in light of changing market conditions, particularly 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 for.

##### *v) Taxation losses recognised as asset*

The Group has recognised deferred tax asset 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 8 for details of tax losses taken up as at 31 July 2014.

##### *vi) Discontinued operations*

On 31 January 2014, the operation of Madman Entertainment became a 'discontinued operation' for the first time as a result of management's plan to sell the business. On 31 July 2014, the Company entered into and completed, a sale agreement to dispose of Madman Entertainment. Consequently, Madman Entertainment ceased to be a subsidiary of the Company at 31 July 2014.

Included in Other debtors is an amount of \$3.8m relating to the working capital adjustment due from the Purchaser on final settlement in respect to the Madman sale.

## Notes to the Financial Statements 31 July 2014

### 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
- Funtastic Brands

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.

On 31 July 2014 the Madman Entertainment reportable segment was sold. Accordingly, Madman Entertainment has been reclassified as a Discontinued Operation in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations'.

The following is an analysis of the Group's revenue and results from continuing operations by reportable operating segment for the financial year under review.

	Revenue		Segment profit/(loss)	
	Year ended 30 July 2014 \$'000	Year ended 30 July 2013 \$'000	Year ended 30 July 2014 \$'000	Year ended 30 July 2013 \$'000
<b>Continuing operations</b>				
Funtastic Australia	90,650	88,594	1,166	15,073
Funtastic Brands	33,299	25,433	4,204	4,160
	<b>123,949</b>	114,027	<b>5,370</b>	19,233
Central administration	-	-	(8,379)	(7,070)
Finance costs	-	-	(4,052)	(5,852)
Depreciation and amortisation expenses	-	-	(4,418)	(3,817)
Other revenue	640	1,711	619	612
Gain on early settlement of deferred acquisition consideration	-	-	-	3,271
Gain on sale of Quick Smart	-	-	1,570	-
Continuing segment revenue and (loss) profit before income tax	<b>124,589</b>	115,738	<b>(9,290)</b>	6,377
Income tax (expense) benefit	-	-	(720)	2,248
Consolidated segment revenue and (loss) profit after tax for the year	<b>124,589</b>	115,738	<b>(10,010)</b>	8,625

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

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

## Notes to the Financial Statements 31 July 2014

### NOTE 4: Segment information

#### Geographical Information

The Group operates in two principal geographical areas – Australia 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 2014 \$'000	Year ended 31 July 2013 \$'000
Australia	90,650	88,594
Hong Kong	33,299	25,433
	123,949	114,027

#### Information about major customers

Included in revenues of Funtastic Australia of \$90,650,000 (2013: \$88,594,000), are revenues of approximately \$74,022,490 (2013: \$75,284,000), which arose from sales to the segment's four largest customers.

Included in revenues of Funtastic Brands of \$33,299,000 (2013: \$25,433,000) are revenues of approximately \$14,310,050 (2013: \$18,693,000) which arose from sale to the segment's four largest customers.

### NOTE 5: Discontinued operations

On 31 July 2014, the Company entered into a sale agreement to dispose of Madman Entertainment. The comparative consolidated statement of profit or loss and other comprehensive income has been restated to show the discontinued operation separately from continuing operations.

The Group has recognised a loss before tax on the sale of the Madman Entertainment operations of \$29,441,000 as at 31 July 2014 of which \$24,163,000 had been recognised in the books and records of the Company as at 31 January 2014.

Consideration received	\$'000
Sale consideration – Madman	21,500
Cash asset – Madman	(1,603)
<b>Total amount received from sale of businesses</b>	<b>19,897</b>
Deferred consideration - Madman	3,772
<b>Total proceeds from sale of businesses</b>	<b>23,669</b>
Costs to sell	(1,205)
<b>Net proceeds from sale of businesses</b>	<b>22,464</b>

Results of discontinued operation	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
Revenue	37,867	50,807
Expenses	(40,369)	(43,156)
Results from operating activities	(2,502)	7,651
Tax	632	(2,314)
Result from operating activities, net of tax	(1,870)	5,337
Loss on sale of discontinued operation	(29,441)	-
Tax benefit on loss on sale of discontinued operation	5,614	-
<b>(Loss) profit for the year from discontinued operations</b>	<b>(25,697)</b>	<b>5,337</b>
Basic earnings per share (cents per share)	(3.88)	0.98
Diluted earnings per share (cents per share)	(3.88)	0.98

## Notes to the Financial Statements 31 July 2014

### NOTE 5: Discontinued operations (continued)

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
<b>Cash flows from (used in) discontinued operation</b>		
Net cash from operating activities	2,671	1,268
Net cash used in investing activities	(1,596)	(1,058)
Net cash flows for the year	1,075	210
<b>Effect of disposal on the financial position of the Group</b>		
	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
Trade receivables	4,153	-
Current tax assets	121	-
Inventories	3,043	-
Other assets	24,860	-
Intangible assets	1,737	-
Plant and equipment	910	-
Trade payable	(6,606)	-
Provisions	(1,184)	-
Other liabilities	(3,979)	-
Net assets disposed of	23,055	-
Goodwill relating to Madman (CGU)	28,850	-
Net asset effect of disposal of Madman to the Group	51,905	-
Less: net proceeds from sale of business	(22,464)	-
Loss on disposal of Madman Entertainment, before tax	29,441	-

### NOTE 6: Revenue

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

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
<b>Revenue from the sale of goods</b>		
Gross revenue	140,044	128,532
Less settlement discounts and rebates	(16,095)	(14,505)
	123,949	114,027
Commissions received	637	1,276
Other	3	435
	640	1,711
	124,589	115,738

## Notes to the Financial Statements 31 July 2014

### NOTE 7: Profit for the year

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

<i>Investment Income</i>	Note	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
Interest from bank deposits		15	21
Rental income		604	591
		<u>619</u>	<u>612</u>
Impairment loss recognised on trade receivables		135	530
<i>Depreciation and amortisation expense</i>			
Depreciation of plant & equipment		691	653
Depreciation of leasehold improvements		279	199
Amortisation of other intangible assets		2,969	2,445
Amortisation of product development costs/trademarks		479	520
Total depreciation and amortisation expense		<u>4,418</u>	<u>3,817</u>
<i>Research and development costs expensed as incurred</i>		<u>884</u>	<u>645</u>
<i>Employee benefits expense</i>			
Defined contribution plans		806	671
Equity-settled share-based payments		302	21
Termination benefits		558	117
Other employee benefits		9,824	9,920
Total employee benefits expense		<u>11,490</u>	<u>10,729</u>

### NOTE 8: Income tax

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
<b>(a) Income tax expense relating to continuing operations</b>		
Tax expense comprises:		
Current tax expense in respect of the current year	48	97
Adjustments recognised in the current year in relation to the current tax expense of prior years	-	87
	<u>48</u>	<u>184</u>
Deferred tax expense comprises:		
Deferred tax expense on current period revenue losses, unrecognised	1,139	-
Deferred tax benefit recognised on previously unrecognised and unused tax losses	-	(2,658)
Deferred tax (benefit) expense relating to the origination and reversal of temporary differences	(734)	3,390
Adjustments recognised in the current year in relation to the deferred tax of prior years	(75)	(2,474)
Deferred tax reclassified from equity to profit or loss	342	(690)
Total tax expense (benefit) relating to continuing operations	<u>720</u>	<u>(2,248)</u>

## Notes to the Financial Statements 31 July 2014

### NOTE 8: Income tax (continued)

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
<b>(b) Income tax recognised in profit or loss</b>		
The expense for the year can be reconciled to the accounting profit as follows:		
(Loss) profit from continuing operations	(9,290)	6,377
Tax expense at the Australian tax rate of 30%	(2,787)	1,913
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Expenses that are not deductible in determining taxable loss	968	560
Effect of current year's unrecognised and unused tax losses	3,057	344
Effect of previously unrecognised and unused tax losses	-	(3,002)
Effect on previously unrecognised and unused capital losses	(471)	(981)
Effect of different tax rates of subsidiaries operating in other jurisdictions	28	(74)
Other	-	(381)
	<b>795</b>	<b>(1,621)</b>
Adjustments recognised in the current year in relation to the deferred tax of prior years	(75)	(627)
<b>Income tax expense (benefit) recognised in profit or loss</b>	<b>720</b>	<b>(2,248)</b>
<b>Balance of unrecognised unused revenue tax losses</b>	<b>24,463</b>	<b>13,782</b>
<b>(c) Income tax recognised directly in equity</b>		
Deferred Tax (liability)/asset:		
Financial instruments treated as cash flow hedges	54	(207)
Relating to share issue expenses deductible over 5 years	315	509
	<b>369</b>	<b>302</b>
<b>(d) Current tax balances</b>		
Current tax assets and liabilities		
Income tax receivable from /(payable) to tax office:		
Other – overseas subsidiaries	5	139

## Notes to the Financial Statements 31 July 2014

NOTE 8: Income tax (continued)	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
<b>(e) Deferred tax balances</b>		
Deferred tax assets comprises:		
Revenue tax losses	10,161	10,161
Temporary differences	2,493	2,715
	<b>12,654</b>	<b>12,876</b>
Deferred tax liabilities comprises:		
Temporary differences	(235)	(6,300)
Net deferred tax asset	<b>12,419</b>	<b>6,576</b>
Deferred tax assets/(liabilities) arise from the following:		
Provisions – receivables	229	138
Provisions – employee benefits	199	481
Provisions – onerous contracts	153	260
Revenue tax losses	10,161	10,161
Accruals	74	103
Prepaid royalties	(180)	(5,883)
Other provisions	1,385	997
Foreign exchange	(54)	(207)
Cash flow hedges	54	(207)
Section 40 -880 deductions (capital raising)	315	509
Other	83	224
	<b>12,419</b>	<b>6,576</b>

### **Unrecognised taxable temporary differences associated with investments and interests**

Under the tax law, the taxable profit made by a tax-consolidated group in relation to an entity leaving the group depends on a range of factors, including the tax values and/or carrying values of the assets and liabilities of the leaving entities, which vary in line with the transactions and events recognised in each entity. The taxable profit or loss ultimately made on any disposal of the investments within the tax-consolidated group will therefore depend upon when each entity leave the tax-consolidated group and the assets and liabilities that the leaving entity holds at that time.

The Group considers the effects of entities entering or leaving the tax-consolidate group to be a change of tax status that is only recognised when those events occur. As a result temporary differences and deferred tax liabilities have not been measured or recognised in relation to investments remaining within the tax-consolidated group.

### **Tax consolidation**

#### *(i) 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 32.

#### *(ii) 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 have 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 provide 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



## Notes to the Financial Statements 31 July 2014

### NOTE 8: Income tax (continued)

#### Tax consolidation (continued)

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 2014 the Australian Group has carried forward revenue tax losses of approximately \$57,332,000 (2013: \$47,655,000). As at 31 July 2014 a deferred tax asset of \$10,161,000 (2013: \$10,161,000) has been booked relating to revenue tax losses of \$33,873,000 (2013: \$33,873,000). Following the assessment of the probability of recovery, having considered future taxable income and current tax legislation with respect to carrying forward revenue tax losses, the balance of tax losses available at 31 July 2014 of \$23,463,000 has not been booked as a deferred tax asset in these financial statements.

The utilisation of deferred tax asset is dependent on the Company generating future taxable profits in excess of the profits arising from the reversal of existing temporary differences.

The directors are of the opinion that this is a reasonable position to maintain as the Company has forecast taxable profits over the next three financial years which will utilise these assets.

### NOTE 9: Finance Costs

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
<b>Continuing operations</b>		
Interest on bank overdrafts and loans	4,606	5,484
Fair value losses on interest rate swaps designated as cash flow hedges transferred from equity	(554)	368
	<b>4,052</b>	<b>5,852</b>
<b>Discontinued operations</b>		
Interest on bank overdrafts and loans	-	-

### NOTE 10: Current assets – Trade and other receivables

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
Trade receivables <sup>(i)</sup>	21,193	42,927
Allowance for doubtful debts	(763)	(461)
Allowance for credit notes, rebates and settlement discounts	(4,242)	(7,855)
	<b>16,188</b>	<b>34,611</b>
Other receivables	950	1,413
	<b>17,138</b>	<b>36,024</b>

<sup>(i)</sup>The average credit period on sales of goods is 56 days (2013: 72 days). No interest is charged on the trade receivables.

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 \$2,797,288 (2013: \$3,482,386) 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.

## Notes to the Financial Statements 31 July 2014

### NOTE 10: Current assets – Trade and other receivables (continued)

Age of receivables that are past due but not impaired	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
30-60 days	1,954	1,840
60-90 days	195	-
90-120 days	648	1,642
Total	2,797	3,482
Average age (days)	68	78

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.

	Doubtful debts \$'000	Rebates, credit notes & settlement discounts \$'000	Total \$'000
<b>Movement in Allowance for doubtful debts, credit notes, rebates and settlement discounts</b>			
<b>2014</b>			
Balance at beginning of year	(461)	(7,855)	(8,316)
Utilised	133	4,131	4,264
Reclassified from accruals	(300)	-	(300)
Provisions raised	(135)	(518)	(653)
<b>Balance as at 31 July 2014</b>	<b>(763)</b>	<b>(4,242)</b>	<b>(5,005)</b>
<b>2013</b>			
Balance at beginning of year	(595)	(7,126)	(7,721)
Utilised	664	6,282	6,946
Reversed	-	183	183
Provisions raised	(530)	(7,194)	(7,724)
<b>Balance as at 31 July 2013</b>	<b>(461)</b>	<b>(7,855)</b>	<b>(8,316)</b>

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.

## Notes to the Financial Statements 31 July 2014

### NOTE 11: Current assets – Inventories

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
Finished goods	16,375	23,964

The cost of inventories recognised as an expense during the year in respect of continuing operations was \$90,689,000 (2013: \$72,688,000).

### NOTE 12: Other Assets

	Note	Year end 31 July 2014 \$'000	Year end 31 July 2013 \$'000
<b>Current other assets</b>			
Prepaid royalties		716	6,580
Prepayments		3,305	3,512
Deferred sale consideration	5	3,772	-
Other		60	270
		<b>7,853</b>	<b>10,362</b>
<b>Non-current other assets</b>			
Product development costs		129	660
Trademarks		130	198
Prepaid royalties		-	14,907
Other		210	-
		<b>469</b>	<b>15,765</b>

### NOTE 13: Other financial assets

	Year end 31 July 2014 \$'000	Year end 31 July 2013 \$'000
<i>Current</i>		
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
	-	<b>1,552</b>

These are classified as Level 2 fair value measurement. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risks of various counter parties.

### NOTE 14: Non-current assets – Plant and equipment

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
Plant and equipment – at cost	2,805	4,383
Less: accumulated depreciation	<b>(2,136)</b>	<b>(2,962)</b>
	<b>669</b>	<b>1,421</b>
Leasehold improvements – at cost	1,773	2,207
Less: accumulated depreciation	<b>(874)</b>	<b>(709)</b>
	<b>899</b>	<b>1,498</b>
Net book value at 31 July	<b>1,568</b>	<b>2,919</b>

## Notes to the Financial Statements 31 July 2014

### NOTE 14: Non-current assets – Plant and equipment (continued)

#### Reconciliations

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

<b>31 July 2014</b>	<b>Plant &amp; Equipment \$'000</b>	<b>Leasehold Improvements \$'000</b>	<b>Total \$'000</b>
<b>Cost</b>			
Opening Balance	4,383	2,206	6,589
Additions	568	124	692
Disposals	(509)	(12)	(521)
De-recognition on disposal of a subsidiary	(1,617)	(545)	(2,162)
Net foreign exchange difference	(20)	-	(20)
<b>Closing Balance</b>	<b>2,805</b>	<b>1,773</b>	<b>4,578</b>
<b>Accumulated Depreciation</b>			
Opening Balance	(2,962)	(708)	(3,670)
Disposals	558	3	561
De-recognition on disposal of a subsidiary	1,031	221	1,252
Depreciation	(784)	(390)	(1,174)
Net foreign exchange difference	21	-	21
<b>Closing Balance</b>	<b>(2,136)</b>	<b>(874)</b>	<b>(3,010)</b>
<b>Written Down Value</b>			
Opening Balance	1,421	1,498	2,919
<b>Closing Balance</b>	<b>669</b>	<b>899</b>	<b>1,568</b>
<b>31 July 2013</b>			
<b>Cost</b>			
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
<b>Closing Balance</b>	<b>4,383</b>	<b>2,206</b>	<b>6,589</b>
<b>Accumulated Depreciation</b>			
Opening Balance	(2,580)	(794)	(3,374)
Disposals	382	387	769
Depreciation	(744)	(301)	(1,045)
Net foreign exchange difference	(20)	-	(20)
<b>Closing Balance</b>	<b>(2,962)</b>	<b>(708)</b>	<b>(3,670)</b>
<b>Written Down Value</b>			
Opening Balance	736	1,706	2,442
<b>Closing Balance</b>	<b>1,421</b>	<b>1,498</b>	<b>2,919</b>

## Notes to the Financial Statements 31 July 2014

### NOTE 15: Non-current assets – Goodwill

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
Gross carrying amount		
Balance at the beginning of financial year	78,845	78,845
De-recognition on disposal of a subsidiary	(28,850)	-
<b>Balance at the end of financial year</b>	<b>49,995</b>	<b>78,845</b>
<b>Net book value</b>		
Balance at the beginning of financial year	78,845	78,845
<b>Balance at the end of financial year</b>	<b>49,995</b>	<b>78,845</b>

#### 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:

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
<b>Cash generating unit</b>		
Funtastic Australia	44,769	44,769
Funtastic Brands	5,226	5,226
Madman Entertainment	-	28,850
<b>Total</b>	<b>49,995</b>	<b>78,845</b>

The Funtastic Limited consolidated entity has two cash generating units (CGU's); Funtastic Australia and Funtastic Brands, with carrying amounts of goodwill and intangible assets identified in each CGU. The Madman Entertainment CGU was disposed of during the year. Refer to Note 5.

Each CGU is required to perform an impairment test annually on goodwill and other indefinite life intangible assets as required by AASB 136. The recoverable amounts of the CGU's and related goodwill and intangibles were determined having regard to the fair value less cost of disposal approach.

The fair value less cost of disposal was considered more appropriate than value in use calculation approach used in prior reporting periods for each CGU. The rationale for the change is due to the significant changes in the management and operations of the Company following the sale of Madman Entertainment, the Company has restructured the business and continues to expand support operations out of Hong Kong as well as international markets. Fair value less cost of disposal is the price that would be received to sell an asset in the ordinary transaction between market participants at the measurement date less incremental costs to sell.

The fair value less cost of disposal approach using maintainable earnings assumes the CGU's will benefit from prior investment, generating improved earnings across acquired brands, and intellectual property required to expand markets for the Company's products.

#### *Funtastic Australia*

In determining EBITDA multiple of 10.5 for Funtastic Australia CGU, consideration was given to:

- external sources in regard to trading multiples of comparable entities with significant branding in the Australian market;
- exposure of own brands internationally; and
- comparative entities which have strong agency brands that were wholesaled into the Australian market.

## Notes to the Financial Statements 31 July 2014

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

#### Cash generating unit (continued)

##### *Funtastic Australia (continued)*

To calculate the fair value less cost of disposal, an amount of 1.5% was used in estimating the costs associated with disposing of the Funtastic Australia CGU.

Maintainable earnings for the Funtastic Australia CGU are based on normalised sales and gross margins for 2015. Sales projected are consistent with 2014 and margins used are consistent with those achieved in 2012 and 2013.

During the year neither goodwill nor intangibles were impaired at the end of the reporting period. The breakeven multiple is 8.1. Sensitivity analysis on reasonably possible changes in assumptions did not result in an outcome where impairment would be required. Based on this assessment, the Directors are of the opinion that the recoverable amount of the Funtastic Australia's CGU, goodwill and intangibles currently exceed their carrying values.

##### *Funtastic Brands*

In determining EBITDA multiple of 11.3 for Funtastic Brands CGU, consideration was given to:

- external sources in regard to trading multiples of comparable entities with own brands engaged in international markets;
- entities with manufacturing capabilities that service international markets with own products; and
- Comparable entities that are of a similar size to Funtastic were used.

To calculate the fair value less cost of disposal, an amount of 1.5% was used in estimating the costs associated with disposing of the Funtastic Brands CGU.

Maintainable earnings for the Funtastic Brands CGU are based on normalised sales and gross margins for 2015. Sales growth being consistent with those achieved in 2013 and 2014.

During the year neither goodwill nor intangibles were impaired at the end of the reporting period. The breakeven multiple is 4.0. Sensitivity analysis on reasonably possible changes in assumptions did not result in an outcome where impairment would be required. Based on this assessment, the Directors are of the opinion that the recoverable amount of the Funtastic Brand's CGU, goodwill and intangibles currently exceed their carrying values.

### NOTE 16: Non-current assets – Other intangibles

	Year ended 31 Jul 2014 \$'000	Year ended 31 Jul 2013 \$'000
Brand names <sup>(i)</sup>	1,015	1,015
Software costs	5,650	5,967
Accumulated amortisation and impairment <sup>(ii)</sup>	(4,040)	(3,814)
	1,610	2,153
Chill Factor – Trademarks and patents	10,423	11,341
Accumulated amortisation and impairment <sup>(ii)</sup>	(537)	-
	9,886	11,341
Licenses, distribution agreements & supplier relationships	9,925	9,627
Accumulated amortisation and impairment <sup>(ii)</sup>	(5,057)	(3,087)
	4,868	6,540
	17,379	21,049

## Notes to the Financial Statements 31 July 2014

### NOTE 16: Non-current assets – Other intangibles (continued)

	Software <sup>(iii)</sup>	Brand names <sup>(i)</sup>	Chill Factor Trademarks and patents <sup>(iii)</sup>	Licenses, distribution agreements and supplier relationships <sup>(ii)</sup>	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cost</b>					
<b>Balance at 1 August 2013</b>	5,967	1,015	11,341	9,627	27,950
Additions	2,360	-	207	319	2,886
Revaluation adjustment	-	-	(1,125)	-	(1,125)
De-recognition on disposal of a subsidiary	(2,211)	-	-	-	(2,211)
Disposals	(466)	-	-	(21)	(487)
<b>Balance at 31 July 2014</b>	<b>5,650</b>	<b>1,015</b>	<b>10,423</b>	<b>9,925</b>	<b>27,013</b>
Balance at 1 August 2012	4,941	1,015	-	8,814	14,770
Additions	1,303	-	11,341	813	13,457
Disposals	(277)	-	-	-	(277)
<b>Balance at 31 July 2013</b>	<b>5,967</b>	<b>1,015</b>	<b>11,341</b>	<b>9,627</b>	<b>27,950</b>
<b>Accumulated amortisation and impairment</b>					
<b>Balance at 1 August 2013</b>	(3,814)	-	-	(3,087)	(6,901)
Amortisation expense	(972)	-	(537)	(1,970)	(3,479)
Net foreign exchange difference	(4)	-	-	-	(4)
De-recognition on disposal of a subsidiary	474	-	-	-	474
Disposals	276	-	-	-	276
<b>Balance at 31 July 2014</b>	<b>(4,040)</b>		<b>(537)</b>	<b>(5,057)</b>	<b>(9,634)</b>
Balance at 1 August 2012	(3,594)	-	-	(1,053)	(4,647)
Amortisation expense	(496)	-	-	(2,034)	(2,530)
Disposals	276	-	-	-	276
<b>Balance at 31 July 2013</b>	<b>(3,814)</b>			<b>(3,087)</b>	<b>(6,901)</b>
<b>Net book value</b>					
As at 31 July 2013	2,153	1,015	11,341	6,540	21,049
<b>As at 31 July 2014</b>	<b>1,610</b>	<b>1,015</b>	<b>9,886</b>	<b>4,868</b>	<b>17,379</b>

(i) Brand names acquired and separately identified as part of the acquisition of Mike & Jack confectionery in May 2006. The Group intends to continue the use of the brand names for an indefinite period and are therefore not amortised but are subject to an annual test for impairment. The key assumptions used in the fair value less cost to sell calculations are stated in Note 15.

(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) 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.

## Notes to the Financial Statements 31 July 2014

### NOTE 17: Assets pledged as security

In accordance with the security arrangements of liabilities as disclosed in Note 19 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 18: Current Liabilities – Trade payables

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
Trade payables <sup>(i)</sup>	17,280	19,968

<sup>(i)</sup>The average credit period on purchases of certain goods from international suppliers ranges from 4 weeks to 4 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.

### NOTE 19: Borrowings

Secured – at amortised cost	Note	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
<i>Current</i>			
Bill finance		3,665	12,729
Debtors finance		4,783	15,238
Finance lease liabilities	24	265	46
Trade finance		20,644	15,241
Less: capitalised transaction costs		-	(85)
<b>Total Current</b>		<b>29,357</b>	<b>43,169</b>
<i>Non-current</i>			
Bill finance		7,000	9,600
Finance lease liabilities	24	299	129
		7,299	9,729
Less: capitalised transaction costs		-	(21)
<b>Total Non-current</b>		<b>7,299</b>	<b>9,708</b>
Current borrowings		29,357	43,169
Non-current borrowings		7,299	9,708
		<b>36,656</b>	<b>52,877</b>

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. See Note 17

On 31 July 2014 the overall facilities were extended to 31 October 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 2014 in respect of these facilities have been disclosed as current borrowings in the statement of financial position.



## Notes to the Financial Statements 31 July 2014

### NOTE 19: Borrowings (continued)

On completion of the Madman Entertainment sale, the level of debt facility was reduced as follows:

	\$'000
Bill finance	8,000
Debtors finance	-
Trade finance	5,000
	<u>13,000</u>

#### **Financing Arrangements**

During 2014 the Group's senior lender, National Australia Bank, agreed to vary the terms of the existing facilities agreement to vary the timing of the 2014/2015 borrowing repayments. During November 2013 the Group negotiated an extension to the existing facilities to 31 October 2015.

The current interest rates are 5.78% on the debtors finance facility, 7.49% on the trade finance facility and 5.97% on the bill finance facility (2013: 8.49%, 7.67% and 6.41% respectively)

#### **Financing Arrangements – Controlled Entities**

All facilities are secured by a first ranking mortgage debenture of the Group. Refer to Note 34 Financial Instruments for further details regarding the lending covenants associated with the borrowings.

### NOTE 20: Provisions

	Note	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
<i>Current</i>			
Employee benefits <sup>(i)</sup>		526	1,173
Onerous lease contracts <sup>(ii)</sup>	31	236	236
Licensor audits <sup>(iii)</sup>		122	421
<b>Total Current</b>		<u>884</u>	<u>1,830</u>
<i>Non-current</i>			
Employee benefits <sup>(i)</sup>		213	462
Onerous lease contracts <sup>(ii)</sup>	31	272	631
<b>Total Non-current</b>		<u>485</u>	<u>1,093</u>
		<u>1,369</u>	<u>2,923</u>

## Notes to the Financial Statements 31 July 2014

### NOTE 20: Provisions (continued)

	Onerous lease contracts <sup>(ii)</sup> \$'000	Licensor Audits <sup>(iii)</sup> \$'000	Total \$'000
<b>Balance at 1 August 2013</b>	<b>867</b>	<b>421</b>	<b>1,288</b>
Additional provisions recognised	-	54	54
Reductions resulting from re-measurement or settlement without cost	<b>(359)</b>	<b>(353)</b>	<b>(712)</b>
<b>Balance at 31 July 2014</b>	<b>508</b>	<b>122</b>	<b>630</b>
<b>Balance at 1 August 2012</b>	1,299	1,546	2,845
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)
<b>Balance at 31 July 2013</b>	<b>867</b>	<b>421</b>	<b>1,288</b>

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

(ii) 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 31).

(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 21: Deferred purchase consideration

<i>Current</i>	Note	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
Deferred purchase consideration - business acquisition (KPM)		-	924
		-	924

### NOTE 22: Other Liabilities

<i>Current</i>	Note	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
Accrued royalties		924	3,925
GST payable		-	132
Lease incentives	31	160	187
Payroll accruals		367	309
Other creditors		125	10,517
Other accrued expenses		<b>3,008</b>	5,341
		<b>4,584</b>	20,411
<i>Non-current</i>			
Lease incentives	31	<b>310</b>	787
		<b>310</b>	787

## Notes to the Financial Statements 31 July 2014

### NOTE 23: Other financial liabilities

	Note	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
<i>Current</i>			
Derivatives that are designated and effective as hedging instruments carried at fair value:			
Foreign currency forward contracts		44	-
Interest rate swaps		136	663
		<b>180</b>	<b>663</b>
Disclosed in the financial statements as:			
Current other financial liabilities	34	<b>180</b>	<b>663</b>

These are classified as Level 2 fair value measurement. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risks of various counter parties.

### NOTE 24: Leasing arrangements

The Group leases certain of its equipments under finance lease. 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% (2013: 0.0% to 8.9%) per annum.

#### Finance lease liabilities

	Minimum Lease payments		Present value of minimum lease payments	
	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
Not later than one year	272	50	265	46
Later than one year and not later than five years	318	142	299	129
	590	192	564	175
Less: Future finance charges	(26)	(17)	-	-
Present value of minimum lease payments	564	175	564	175

	Note	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
Included in the consolidated financial statements:			
Current borrowings	19	265	46
Non-current borrowings	19	299	129
		<b>564</b>	<b>175</b>

## Notes to the Financial Statements 31 July 2014

### NOTE 25: Issued Capital

	Year ended 31 July 2014	Year ended 31 July 2013
	\$'000	\$'000

#### Share Capital

667,169,723 fully paid ordinary shares (2013: 642,169,723)	208,372	204,497
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Fully paid ordinary shares carry one vote per share and carry the rights to dividends.

#### Movements in Ordinary Share Capital included in the Company and consolidated financial statements:

	2014		2013	
	Number of shares <sup>(i)</sup>	Share capital \$'000	Number of shares <sup>(i)</sup>	Share capital \$'000
Opening balance 1 August	644,569,723	204,497	537,799,605	186,725
Institutional Placement (June 2012)	-	-	-	(25)
Slushy Magic US/Canada distribution rights (April 2013)	-	-	2,577,136	586
Dividend Reinvestment Plan (DRP) (May 2013)	-	-	4,144,496	824
DRP Underwriting (May 2013)	-	-	9,413,192	1,800
Shares issued under ESLS 1 in June 2013	-	-	2,400,000	-
Institutional Placement (July 2013)	-	-	88,235,294	14,587
Chill Factor Global (October 2013)	25,000,000	3,875	-	-
ESLS 1 forfeiture in November 2013	(200,000)	-	-	-
Shares issued under ESLS 2 in January 2014	2,200,000	-	-	-
ESLS 1 cancellations on 31 July 2014	(1,200,000)	-	-	-
ESLS 2 cancellations on 31 July 2014	(500,000)	-	-	-
<b>Closing balance 31 July</b>	<b>669,869,723</b>	<b>208,372</b>	644,569,723	204,497
Treasury shares	(2,700,000)	-	(2,400,000)	-
<b>Adjusted closing balance</b>	<b>667,169,723</b>	<b>208,372</b>	642,169,723	204,497

<sup>(i)</sup> Includes shares issued under the Employee Share Loan Scheme through the Employee Share Plan Rules

#### 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.

#### Options

##### Executive Share Options

At 31 July 2014, executives held options over 9,166,666 ordinary shares of the Company, of which 2,666,666 will expire on 10 August 2014, 5,000,000 will expire on 31 December 2014, and the remaining 1,500,000 do not have expiry dates. At 31 July 2013, executives held options over 6,400,000 ordinary shares of the Company, of which 200,000 expired on 2 September 2013, 4,666,667 were forfeited due to resignations/ terminations of employment, and 1,533,333 do not have expiry dates. Refer to the Remuneration Report in the Directors' Report for details.

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 35.

## Notes to the Financial Statements 31 July 2014

### NOTE 25: Issued Capital (continued)

#### Options (continued)

##### *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. These options expired on 19 January 2014.

##### *Employee Share Loan Schemes*

On 27 January 2014, Funtastic Limited granted 2,200,000 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, these shares are 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 taken out of authorised unissued shares. Further details of the ESLS are set out in Note 35.

#### Rights

##### *Employee Performance Share Rights*

At 31 July 2013 employees held rights 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 35.

### NOTE 26: Accumulated losses

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
Opening balance	(102,473)	(113,733)
Net (loss) profit after tax for the year	(35,707)	13,962
Dividends paid	(3,335)	(2,702)
Balance at the end of financial year	<u>(141,515)</u>	<u>(102,473)</u>

### NOTE 27: Reserves

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
Foreign currency translation reserve	(976)	(1,013)
Equity-settled benefits reserve	1,941	1,639
Cash flow hedging reserve	(62)	297
	<u>903</u>	<u>923</u>
<b>Foreign currency translation reserve</b>		
Balance at the beginning of the period	(1,013)	(1,186)
Translation of foreign operations	37	173
	<u>(976)</u>	<u>(1,013)</u>

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

## Notes to the Financial Statements 31 July 2014

### NOTE 27: Reserves (continued)

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
<b>Equity settled benefit reserve</b>		
Balance at the beginning of the period	1,639	1,616
Share based payments	302	23
	<b>1,941</b>	<b>1,639</b>

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 35 to the financial statements.

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
<b>Cash flow hedging reserve</b>		
Balance at the beginning of the period	297	(1,665)
Gain recognised:		
Forward exchange contracts	983	701
Interest rate swaps	727	695
Transferred to profit or loss <sup>(i)</sup> :		
Forward exchange contracts	564	(394)
Interest rate swaps	(554)	368
Transferred to initial carrying amount of hedged item:		
Forward exchange contracts	(2,379)	1,581
Interest rate swaps	129	(624)
Deferred tax liability arising on hedges	171	(365)
	<b>(62)</b>	<b>297</b>

<sup>(i)</sup> Gains and losses from Interest swaps, transferred from equity to profit or loss during the period are included in Finance costs in the Statement of Profit or Loss and Other Comprehensive Income. Gains and losses from Forward exchange contracts, transferred from equity to profit or loss during the period are included in the Cost of Goods Sold in the Statement of Profit or Loss and other Comprehensive Income.

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
Net gain (loss) on forward exchange contracts, recognised in Cost of Goods Sold	564	(394)
Finance (income) Costs	(554)	368
	<b>10</b>	<b>(26)</b>

## Notes to the Financial Statements 31 July 2014

### NOTE 28: Earnings per share

	31 July 2014 Cents per share	31 July 2013 Cents per share
<b>Basic earnings per share</b>		
From continuing operations	(1.51)	1.60
From discontinued operations	(3.88)	0.98
<i>Total Earnings per share</i>	<u>(5.39)</u>	<u>2.58</u>
<b>Diluted earnings per share</b>		
From continuing operations	(1.51)	1.59
From discontinued operations	(3.88)	0.98
<i>Total Earnings per share</i>	<u>(5.39)</u>	<u>2.57</u>

#### Basic earnings per share calculation:

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

	31 July 2014 \$'000	31 July 2013 \$'000
Net (loss) profit after tax for the year – continuing operations	(10,010)	8,625
Net (loss) profit after tax for the year – discontinued operations	(25,697)	5,337
(Loss) profit used in the calculation of total basic EPS from continuing operations	<u>(35,707)</u>	<u>13,962</u>
	<b>2014</b>	<b>2013</b>
	<b>No. '000</b>	<b>No. '000</b>

Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share, 667,169,723 (2013: 642,169,723).

#### Diluted earnings per share calculation:

Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share, 667,169,723 (2013: 642,169,723).

Add: Shares deemed to be issued for no consideration in respect of:

Employee Share Loan Scheme	_(i)	243
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	<u>667,740</u>	<u>542,246</u>

(i) The following potential ordinary shares are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share calculation. Potential ordinary shares are anti-dilutive when their conversion to ordinary shares would increase earnings per share or decrease loss per share from continuing operations.

	31 July 2014 No. '000	31 July 2013 No. '000
Potential options - non-dilutive	7,667	6,710
	<u>7,667</u>	<u>6,710</u>

Potential options – non-dilutive is made up of: ESOP 1,333,333 shares; and Unlisted options 6,333,333 shares.

## Notes to the Financial Statements 31 July 2014

### NOTE 29: Dividends on equity instruments

	Year ended 31 July 2014		Year ended 31 July 2013	
	Cents per Share	Total \$'000	Cents per share	Total \$'000
<b>Recognised amounts</b>				
<i>Fully paid ordinary shares</i>				
Interim dividend	0.5	3,335	0.5	2,702
	0.5	3,335	0.5	2,702
<b>Unrecognised amounts</b>				
<i>Fully paid ordinary shares</i>				
Final dividend	-	-	0.5	3,223
	-	-	0.5	3,223
		<b>Year ended 31 July 2014 \$'000</b>		<b>Year ended 31 July 2013 \$'000</b>
Adjusted franking account balance		19,302		20,733
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.

### NOTE 30: Lease Commitments

#### **Lease Commitments**

Non-cancellable operating lease commitments are disclosed in Note 31 to the financial statements. The total due under finance lease arrangements as at 31 July 2014 was \$564,000 (2013: \$175,000) and are disclosed in Note 19.

#### **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:

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
Not later than one year	513	1,075
Later than one year but not later than two years	286	186
	799	1,261

The expected future payments in relation to these license agreements are recognised as a liability as at 31 July 2014 (Note 22).



## Notes to the Financial Statements 31 July 2014

### NOTE 31: 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 Group exercises its option to renew. The Group does 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:

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
Minimum lease payments	1,515	2,258
Sub-lease payments received	(604)	(591)
	911	1,667

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	3,725	2,980
Later than 1 but not later than 5 years	5,444	7,938
Later than 5 years	-	-
	9,169	10,918

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	(1,176)	(1,845)
	(1,783)	(2,452)

Net commitments payable under non-cancellable operating leases contracted for but not capitalised in the accounts:

No later than 1 year	3,118	2,374
Later than 1 but not later than 5 years	4,268	6,092
	7,386	8,466

#### *Liabilities recognised in respect of non-cancellable operating leases*

	Note	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
<b>Onerous lease contracts:</b>			
Current	20	236	236
Non-current	20	272	631
Lease incentives:			
Current	22	160	187
Non-current	22	310	787
		978	1,841

## Notes to the Financial Statements 31 July 2014

### NOTE 32: Subsidiaries

Name of Entity	Country of Incorporation	Equity Holding	
		Year ended 31 July 2014 %	Year ended 31 July 2013 %
<b>Company</b>			
Funtastic Limited <sup>(i), (iii)</sup>	Australia	100	100
<b>Subsidiaries</b>			
JNH Australia Pty Limited <sup>(ii), (iii)</sup>	Australia	100	100
Fun International Limited	Hong Kong	100	100
Funtastic International Limited	Hong Kong	100	100
Funtastic (NZ) Pty Limited <sup>(ii), (iii)</sup>	Australia	100	100
Dorcy Irwin Pacific Pty Limited <sup>(ii), (i)</sup>	Australia	100	100
Funtastic Employee Share Loan Scheme Trust <sup>(iv)</sup>	Australia	100	100
Dorcy Investments Pty Limited <sup>(iii)</sup>	Australia	100	100
Irwin Pacific Pty Limited <sup>(ii)</sup>	Australia	100	100
Dorcy NZ Pty Limited <sup>(v)</sup>	New Zealand	100	50
Madman Entertainment Pty Limited <sup>(vi)</sup>	Australia	-	100
Madman Productions Pty Limited <sup>(vi)</sup>	Australia	-	100
Madman Interactive Pty Limited <sup>(vi)</sup>	Australia	-	100
The AV Channel Pty Limited <sup>(vi)</sup>	Australia	-	100
Funtastic USA Pty Limited (formerly Judius Pty Limited) <sup>(ii), (iii)</sup>	Australia	100	100
My Paint Box Inc	USA	100	100
Madman NZ Limited <sup>(vi)</sup>	New Zealand	-	100
NSR (HK) Limited <sup>(iii)</sup>	Hong Kong	100	100
Hkeepod (HK) Limited	Hong Kong	100	100
Safety Products International Pty Limited <sup>(ii), (v)</sup>	Australia	100	75
Chill Factor Global Pty Limited <sup>(ii), (iii)</sup>	Australia	100	100
Hydro-Turbine Developments Pty Limited <sup>(ii), (iii)</sup>	Australia	100	100
Fun Toy Products Consulting (Shenzhen) Company Limited	China	100	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 2013 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 (2013).

(vi) Subsidiaries disposed of during the year, part of the Madman Entertainment Group. Refer to Note 5 for details.

## Notes to the Financial Statements 31 July 2014

### NOTE 32: Subsidiaries (continued)

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

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
<b>Statement of profit or loss and other Comprehensive Income</b>		
<i>Continuing operations</i>		
Revenue	123,269	111,665
Cost of goods sold	(89,894)	(75,194)
Gross profit	33,375	36,471
Investment income	619	612
Warehouse and distribution expenses	(10,083)	(10,032)
Marketing and selling expenses	(11,490)	(10,982)
Administration expenses	(15,815)	(8,810)
Gain on early settlement of deferred consideration	-	3,272
Gain on sale of QuickSmart	1,572	-
Earnings before interest, taxation, depreciation and amortisation expenses (EBITDA)	(1,822)	10,531
Finance costs	(3,689)	(5,449)
Depreciation and amortisation expenses	(4,108)	(2,958)
<b>(Loss) profit before income tax</b>	<b>(9,619)</b>	<b>2,124</b>
Income tax benefit	632	2,139
<b>(Loss) profit for the year from continuing operations</b>	<b>(8,987)</b>	<b>4,263</b>
<b>(Loss) from discontinued operations</b>	<b>(24,291)</b>	<b>5,181</b>
<b>(Loss) profit for the year</b>	<b>(33,278)</b>	<b>9,444</b>
<i>Other comprehensive income</i>		
<i>Items that subsequently may be reclassified to profit or loss:</i>		
Loss on equity settled benefits transferred from/taken to equity	(302)	(23)
(Loss) profit on cash flow hedges taken to equity	(322)	1,962
Other comprehensive (loss) income for the year (net of tax)	(624)	1939
<b>Total comprehensive (loss) income for the year</b>	<b>(33,902)</b>	<b>11,383</b>

## Notes to the Financial Statements 31 July 2014

### NOTE 32: Subsidiaries (continued)

The consolidated Statements of Financial Position of the entities party to the deed of cross guarantee are:

Statement of Financial Position	Year ended 31 July 2014 <sup>(i)</sup> \$'000	Year ended 31 July 2013 \$'000
<b>Current Assets</b>		
Cash	4,797	3,756
Trade and other receivables	15,813	28,276
Inventories	16,095	21,456
Other assets	15,349	11,969
Other financial assets	-	7,541
<b>Total Current Assets</b>	<b>52,054</b>	<b>72,998</b>
<b>Non-current Assets</b>		
Property, plant and equipment	1,276	2,526
Goodwill	49,995	78,845
Other intangibles	17,351	21,049
Other investments	29	-
Deferred tax assets	12,876	12,841
Other assets	-	9,258
<b>Total Non-current Assets</b>	<b>81,527</b>	<b>124,519</b>
<b>Total Assets</b>	<b>133,581</b>	<b>197,517</b>
<b>Current Liabilities</b>		
Trade and other payables	16,189	14,991
Borrowings	29,357	43,170
Provisions	782	1,784
Deferred purchase consideration	-	924
Other liabilities	3,784	12,951
Other financial liabilities	180	663
<b>Total Current Liabilities</b>	<b>50,292</b>	<b>74,483</b>
<b>Non-Current Liabilities</b>		
Borrowings	7,299	7,883
Provisions	1,002	1,093
Deferred tax liabilities	235	6,296
Other liabilities	541	745
<b>Total Non-current Liabilities</b>	<b>9,077</b>	<b>16,017</b>
<b>Total Liabilities</b>	<b>59,369</b>	<b>90,500</b>
<b>Net Assets</b>	<b>74,212</b>	<b>107,017</b>
<b>Equity</b>		
Issued capital	208,372	204,497
Accumulated losses	(136,040)	(99,427)
Reserves	1,880	1,947
<b>Total Equity</b>	<b>74,212</b>	<b>107,017</b>

<sup>(i)</sup>At 31 July 2014, the Deed excludes Madman Entertainment Group.

## Notes to the Financial Statements 31 July 2014

### NOTE 33: Notes to the cash flow statements

#### a) Reconciliation of cash and cash equivalents

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 Statement of Financial Position as follows:

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
Cash and cash equivalents	4,909	4,305

#### b) Financing facilities

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
<b>Total Financing Facilities Available</b>		
National Debtor Finance Facility	8,000	17,000
Trade Refinance Facility	22,000	15,300
Commercial Bill Facility	10,665	19,600
Lego Bill Facility	-	2,729
Letters of Credit	11,000	11,000
Bank Guarantees	3,300	3,300
Other Facilities	1,250	425
	<b>56,215</b>	<b>69,354</b>

#### Reconciliation of Total Financing Facilities

##### *Facilities Used at Balance Date*

National Debtor Finance Facility	4,783	15,238
Trade Refinance Facility	20,644	15,241
Commercial Bill Facility	10,665	19,600
Lego Bill Facility	-	2,729
Letters of Credit	7,726	8,905
Bank Guarantees	2,199	3,273
Other facilities	38	181
	<b>46,055</b>	<b>65,167</b>

##### *Facilities Unused at Balance Date*

National Debtor Finance Facility	3,217	1,762
Trade Refinance Facility	1,356	59
Letters of Credit	3,274	2,095
Bank Guarantees	1,101	27
Other Facilities	1,212	244
	<b>10,160</b>	<b>4,187</b>
<b>Total Financing Facilities</b>	<b>56,215</b>	<b>69,354</b>

## Notes to the Financial Statements 31 July 2014

### NOTE 33: Notes to the cash flow statements (continued)

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

	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
(Loss) profit after income tax	(35,707)	13,962
Gain on early settlement of Lego deferred settlement costs	-	(3,272)
Income tax expense recognised in profit or loss	89	67
Amortisation	3,963	2,594
Depreciation	1,173	1,501
Finance Costs recognised in profit or loss	4,052	5,852
Share options expense	302	23
Loss on sale of non-current assets	90	19
Impairment loss recognised on trade receivables	135	530
Interest revenue	(619)	(612)
Net loss on assets designated as held for sale	23,825	-
Gain on QuickSmart sale and other	(1,570)	-
<i>Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:</i>		
Decrease in trade and other receivables	14,892	1,760
Decrease/(increase) in inventories	4,470	(9,296)
Decrease/(increase) in prepayments and other current assets	35	(4,359)
(Decrease)/increase in trade creditors	(12,972)	4,777
Decrease in provisions	(370)	(2,224)
(Decrease)/increase in other liabilities	3,502	(130)
<b>Cash generated from operations</b>	<b>5,290</b>	<b>11,192</b>
Income tax paid	(76)	(311)
Interest Paid	(3,432)	(5,267)
Net cash inflow from operating activities	<b>1,782</b>	<b>5,614</b>

#### d) Cash consideration received on sale of businesses

	Note	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
Madman Entertainment	5	19,897	-
QuickSmart		1,964	-
Net cash received on sale of businesses		<b>21,861</b>	-

## Notes to the Financial Statements 31 July 2014

### NOTE 34: 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 19, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, accumulated losses and reserves as disclosed in Notes 25, 26 and 27 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.

During the year ended 31 July 2014, the Company received waivers in relation to a number of breaches to covenants based on the pre-existing business, including Madman Entertainment. The Company completed the sale on 31 July 2014 and negotiated with its external financiers new covenants as at this date .

#### **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 previous year.

<b>Categories of financial instruments</b>	<b>Year ended 31 July 2014 \$'000</b>	<b>Year ended 31 July 2013 \$'000</b>
<b>Financial assets</b>		
Derivative instruments in designated hedge accounting relationships	-	1,351
Cash and cash equivalents	<b>4,909</b>	4,305
Loans and receivables	<b>18,589</b>	36,363
<b>Financial liabilities</b>		
Derivative instruments in designated hedge accounting relationships	<b>180</b>	663
Non-derivative financial liability	<b>58,289</b>	92,997

#### **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 2014, 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.

## Notes to the Financial Statements 31 July 2014

### NOTE 34: 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 the 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	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
US dollars	12,798	9,899	8,199	13,023
NZ dollars	-	176	-	902
Euro	257	413	-	-
Other	-	-	115	85

#### Foreign currency sensitivity

The Group is mainly exposed to the US dollar, Euro and the HK 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	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
<i>10% increase in AUD against foreign currency</i>						
Profit or Loss <sup>(i)</sup>	560	284	(23)	(37)	-	66
Other equity <sup>(ii)</sup>	415	1,615	-	-	-	-
<i>10% decrease in AUD against foreign currency</i>						
Profit or Loss <sup>(i)</sup>	(685)	(347)	29	46	-	(81)
Other equity <sup>(ii)</sup>	(296)	(745)	-	-	-	-

<sup>(i)</sup>This is mainly attributable to the exposure outstanding in USD receivables and payables at year end.

<sup>(ii)</sup>This is mainly as a result of the changes in fair value of derivative instruments designated as cash flow hedges.



## Notes to the Financial Statements 31 July 2014

### NOTE 34: 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:

Outstanding contracts	Average Exchange Rate		Foreign Currency		Contract Value		Fair Value	
	2014	2013	2014	2013	2014	2013	2014	2013
<b>Buy US dollar</b>	<b>AUD/USD</b>		<b>US/Euro \$'000</b>	<b>US/Euro \$'000</b>	<b>A\$'000</b>	<b>A\$'000</b>	<b>A\$'000</b>	<b>A\$'000</b>
0-12 months	0.9094	0.9923	3,500	11,461	3,849	11,550	3,804	12,865
<b>Buy Euro</b>	<b>AUD/Euro</b>		<b>US/Euro \$'000</b>	<b>US/Euro \$'000</b>	<b>A\$'000</b>	<b>A\$'000</b>	<b>A\$'000</b>	<b>A\$'000</b>
0-12 months	-	0.7352	-	250	-	340	-	376
<b>Total</b>			<b>3,500</b>	<b>11,711</b>	<b>3,849</b>	<b>11,890</b>	<b>3,804</b>	<b>13,241</b>

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 liabilities of the Group of \$44,000 (2013: \$1,352,000 asset).

During the year ended 31 July 2014 a gain on hedging instruments for the Group of \$983,000 (31 July 2013: gain \$701,000) has been brought to account in other current financial assets (Note 13) and liabilities (Note 23). An amount, net of tax, was transferred to equity (Note 27). It is anticipated these purchases will take place during the year to 31 July 2015 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 statement of financial position 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 \$386,000/(\$386,000) respectively (2013: \$405,000/(\$405,000)). This is mainly due to the Group's exposure to interest rates on its variable rate borrowings; and
- Equity would increase by \$28,000/\$23,000 (2013: \$220,000/(\$30,000) increase/(decrease), respectively). This is due to the Group's interest rate swap entered into on 4 February 2013.

## Notes to the Financial Statements 31 July 2014

### NOTE 34: Financial Instruments (continued)

#### Interest Rate Swap Contracts

Bank loans of the Group currently bear an average variable interest rate of 6.82% (2013: 7.37%). It is the Group's 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 73% of the total debt outstanding with its senior lender and is timed to expire on 31 October 2014 (2013: swap in place covered 60% of the long term loan principal outstanding). The fixed interest rate is 4.02% (2013: 4.02%) and the variable rate is the bank bill rate of the term of the underlying bill which at balance date was 2.71% (2013: 2.69%).

As at 31 July 2014, 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	
	2014 %	2013 %	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Less than 1 year	4.02	-	30,000	-	(136)	-
1-2 years	-	4.02	-	30,000	-	(663)
2-3 years	-	-	-	-	-	-
	4.02	4.02	30,000	30,000	(136)	(663)

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 counter party 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.

## Notes to the Financial Statements 31 July 2014

### NOTE 34: Financial Instruments (continued)

#### *Liquidity and interest tables - financial liabilities*

The following table detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has 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
<b>2014</b>							
Non-interest bearing	-	3,823	13,824	3,986	-	-	21,633
Variable interest rate instruments	6.82	2,558	6,256	-	2,131	-	10,945
Fixed interest rate instruments	7.87	5,990	14,643	208	5,302	-	26,143
		<b>12,371</b>	<b>34,723</b>	<b>4,194</b>	<b>7,433</b>	-	<b>58,721</b>
<b>2013</b>							
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
		<b>14,363</b>	<b>43,160</b>	<b>25,634</b>	<b>12,034</b>	-	<b>95,191</b>

#### *Liquidity and interest tables - financial assets*

The following table details the Group's expected maturity for its non-derivative financial assets. The table below has 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
<b>2014</b>							
Non-interest bearing	-	3,413	13,653	1,523	-	-	18,589
Variable interest rate instruments	2.71	4,909	-	-	-	-	4,909
		<b>8,322</b>	<b>13,653</b>	<b>1,523</b>	-	-	<b>23,498</b>
<b>2013</b>							
Non-interest bearing	-	7,204	28,819	340	-	-	36,363
Variable interest rate instruments	2.75	4,305	-	-	-	-	4,305
		<b>11,509</b>	<b>28,819</b>	<b>340</b>	-	-	<b>40,668</b>

## Notes to the Financial Statements 31 July 2014

### NOTE 34: Financial Instruments (continued)

#### *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, 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 is used.

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*

Fair value measurements are discussed in Note 3 and in the notes specific to that asset or liability.

### NOTE 35: 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. Refer to the Share options/share performance right plans of the Remuneration section of the Directors' Report, for details.

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.

#### **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:

<b>Option Number</b>	<b>35</b>	<b>37</b>
Grant date	21/08/2009	01/04/2010
Vesting date	21/08/2012	09/11/2011 & 09/11/2012
Expiry date	10/08/2014	01/04/2015
Exercise price	\$0.135	\$0.207
Stock price at issue	\$0.200	\$0.230
Expected life (years)	4.4	4.4
Volatility	60%	72%
Risk free rate	6.60%	5.48%
Dividend yield	4.00%	4.00%
Vesting period (years)	N/A	N/A
Average fair value at grant date	\$0.072	\$0.119

## Notes to the Financial Statements 31 July 2014

### NOTE 35: 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:

	2014		2013	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Opening balance 1 August	5,200,000	0.161	5,200,000	0.161
Granted during the financial year	-	-	-	-
Forfeited during the financial year	(3,666,667)	-	-	-
Exercised during the financial year	-	-	-	-
Expired during the financial year	(200,000)	-	-	-
Closing balance at 31 July	1,333,333	-	5,200,000	0.161
Exercisable at end of year	1,333,333	0.161	1,333,333	0.161

There has been no alteration of the terms and conditions of the above share-based payment arrangements since the grant date.

#### 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:

There has been no alteration of the terms and conditions of the above share-based payment arrangements since the grant date.

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.

There has been no alteration of the terms and conditions of the above share-based payment arrangements since the grant date.

#### EPSR Balance outstanding at the end of the financial year

2014						
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	nil

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

## Notes to the Financial Statements 31 July 2014

### NOTE 35: Share-based payments (continued)

#### *Employee Performance Share Rights (continued)*

##### *Fair value of performance rights granted*

The following reconciles the outstanding EPSRs granted under the Employee Performance Share Rights Option Plan at the beginning and end of the financial year:

	Year Ended 31 July 2014		Year ended 31 July 2013	
	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	(10,000)	-	-	-
Balance at the end of the financial year	-	-	10,000	-
Exercisable at the end of the financial year	-	-	-	-

#### *Employee Share Loan Scheme*

During the 2013 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 loaned 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, and in the event that the balance of the loan is less than the estimated market value of shares that secure the loan less estimated transaction costs, the participant may request Funtastic to sell the shares on the ASX and that the proceeds 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, the 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. Dividends of \$0.05 per share or total of \$11,000 were paid during the year, on 27 November 2013 (2013: \$nil).

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.

## Notes to the Financial Statements 31 July 2014

### NOTE 35: Share-based payments (continued)

#### Employee Share Loan Scheme (continued)

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 shares outstanding at the end of the financial year

2014

Grant date	Expiry date	Exercise price <sup>(ii)</sup>	Fair value at grant date	Balance at end of Financial year
8/07/2013	N/A	\$0.1599	\$0.1599	1,000,000
27/01/2014	N/A	\$0.1660	\$0.1660	1,700,000
				<b>2,700,000</b>

2013

Grant date	Expiry date	Exercise price	Fair value at grant date	Balance at end of Financial year
8/07/2013	N/A <sup>(i)</sup>	\$0.1599	\$0.1599	2,400,000
				<b>2,400,000</b>

<sup>(i)</sup>The expiry date is the date the employee ceases employment with Funtastic whether vested or not. The options granted under the ESLS do not have an expiry date and can be exercised at any date after vesting conditions have been met

<sup>(ii)</sup>The exercise price represents the issue price per share offered to participants upon invitation to participate in the ESLS. As part of the ESLS, an interest-free, limited recourse loan to each participant was offered for the purpose of acquiring shares in Funtastic. Further details on the loan are set out above. Dividends paid or payable if any, (less the estimated net tax payable on such dividends) are used or will be 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.

#### Fair value of ESLS options granted

Fair values have been determined in accordance with AASB2 '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	Tranche 1	Tranche 2
Grant date	8/07/2013	27/01/2014
Vesting date	01/01/2016	16/11/2016
Expiry date	N/A	N/A
Exercise price	\$0.1599	\$0.1660
Stock price at issue	\$0.1599	\$0.1660
Expected life (years) <sup>(i)</sup>	N/A	N/A
Volatility	55.55%	55.55%
Risk free rate	3.00%	3.00%
Dividend yield	N/A	N/A
Vesting period (years)	2.5	2.5
Average fair value at Grant date	\$0.0502	\$0.0634

## Notes to the Financial Statements 31 July 2014

### NOTE 35: Share-based payments (continued)

#### *Fair value of ESLS options granted (continued)*

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

	2014	Weighted average exercise price \$	2013	Weighted average exercise price \$
	Number of options		Number of options	
Balance at the beginning of the financial year	2,400,000	\$.01599	-	-
Granted during the financial year	2,200,000	\$0.1660	2,400,000	0.1599
Forfeited during the financial year	(1,900,000)	-	-	-
Exercised during the financial year	-	-	-	-
Expired during the financial year	-	-	-	-
Balance at the end of the financial year	2,700,000	-	2,400,000	0.1599
Exercisable at the end of the financial year	-	-	-	-

During the year, 2,200,000 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 2014 is 1.5 years.

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

Market value of shares issued to employees on the exercise of options as at their issue date in the financial period was \$0.077.

### NOTE 36: Key management personnel compensation

#### *Details of key management compensation*

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

	Year ended 31 July 2014 \$	Year ended 31 July 2013 \$
Short-term employee benefits	2,415,604	2,351,619
Post-employment benefits	181,233	144,516
Other long-term benefits	4,689	15,122
Termination benefits	483,636	-
Share-based payments	272,744	20,535
	3,357,906	2,531,792

### NOTE 37: 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 32 to the financial statements.

#### b) Transactions with Key Management Personnel

##### *Key management personnel compensation*

Details of key management personnel compensation are disclosed in Note 36 to the financial statements.

##### *Loans from key management personnel*



## Notes to the Financial Statements 31 July 2014

### NOTE 37: Related party transactions (continued)

#### b) Transactions with Key Management Personnel (continued)

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

	Year ended 31 July 2014	Year ended 31 July 2013
	\$	\$
Nir Pizmony <sup>(i)</sup>	-	912,822

<sup>(i)</sup>Funtastic Limited repaid the shareholder loan in full on 30 August 2013

#### 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 or equity holdings, with key management personnel or their related entities:

	Year ended 31 July 2014	Year ended 31 July 2013
	\$	\$

Consolidated revenue includes the following amounts arising from transactions with key management personnel of the Group or their related parties:

Gross revenue	-	1,210
Interest revenue	-	-
	-	1,210

Consolidated profit includes the following amounts arising from transactions with key management personnel of the Group or their related parties:

Cost of goods sold	5,126,923	6,938,661
Interest expense	4,225	67,176
Other expenses	969	-
	5,132,117	7,005,837

	Year ended 31 July 2014	Year ended 31 July 2013
	\$	\$

Total assets arising from transactions with key management personnel or their related parties:

Current – Other (prepaid expenses)	838,353	-
Current – Inventories	1,616	-
	839,969	-

Total liabilities arising from transactions other than compensation with key management personnel or their related parties:

Trade payables	-	1,890,148
	-	1,890,148

The above transactions were performed at arm's length.

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

- Sales of \$nil (2013: \$1,210) to Petite Living Pty Limited a company related to Mr Craig Mathieson and Mr Stewart Downs;
- Purchases of \$5,004,639 (2013: \$6,938,661) from Madman Printing Pty Limited a company related to Mr Tim Anderson and Mr Paul Wiegard;

## Notes to the Financial Statements 31 July 2014

### NOTE 37: Related party transactions (continued)

#### c) Transactions with key management personnel of the Group (continued)

- As a result of the acquisition of NSR (HK) Limited, a company related to Mr Nir Pizmony, in the previous year, 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 2014 the amount owing under this arrangement was \$nil (2013: \$912,822). 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 2014 was \$nil (2013: \$187,255) of which \$4,225 (2013: \$67,176) relates to the financial year ended 31 July 2014.
- During the financial year, Paul Wiegard, Managing Director for Madman, has advanced payments for prepaid royalties on behalf of Madman Entertainment for total value of USD 795,000 (AUD 1,010,064). These suppliers are not related in any way to Paul Wiegard nor were they related parties of Funtastic Limited. Repayment of the loans to Paul Wiegard were made/effectuated from proceeds of the sale of Madman on 31 July 2014.

#### 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 2014 and 31 July 2013, that were eliminated on consolidation, consist of:

- sales made by Funtastic Limited;
- loans advanced and interest charged by Funtastic Limited;
- payments made by KMP on behalf of Funtastic Limited;
- advances made by KMP on behalf of 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 38: Remuneration of Auditors

	Year ended 31 July 2014	Year ended 31 July 2013
	\$	\$
<i>Auditor of the parent entity</i>		
Audit and review of the financial reports of the entity	<b>230,000</b>	255,000
Audit of the financial report of overseas subsidiary <sup>(i)</sup>	<b>30,000</b>	52,061
Preparation of tax return	<b>53,000</b>	42,828
General taxation services	-	65,000
Other advisory services	<b>268,048</b>	104,000
	<b>581,048</b>	518,889

*The auditor of Funtastic Limited is Deloitte Touche Tohmatsu.*

*(i) Related practice of parent entity auditor.*

## Notes to the Financial Statements 31 July 2014

### NOTE 39: Parent entity disclosures

<i>Financial Position</i>	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
<i>Assets</i>		
Current assets	39,145	40,016
Non-current assets	81,278	132,368
	<b>120,423</b>	<b>172,384</b>
<i>Liabilities</i>		
Current liabilities	(51,998)	(80,332)
Non-current liabilities	(8,296)	(17,846)
	<b>(60,294)</b>	<b>(98,178)</b>
<i>Equity</i>		
Issued capital	(208,372)	(204,497)
Accumulated losses prior to 31 July 2011	123,755	123,755
Loss (profits) reserved from 1 August 2011	26,368	8,472
<i>Reserves:</i>		
Equity-settled benefits	(1,941)	(1,639)
Cash flow hedging	62	(297)
	<b>(60,128)</b>	<b>(74,206)</b>
<i>Financial Performance</i>		
	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
Profit for the year – continuing operations	7,266	2,767
(Loss)/profit for the year - discontinued operations	(21,827)	5,181
Other comprehensive income	(624)	1,985
Total comprehensive income	<b>(15,185)</b>	<b>9,933</b>

#### Commitments for expenditure

There were no commitments to acquire property, plant and equipment at 31 July 2014. Contingent liabilities as disclosed in Note 41 relate to the parent entity as well as the Group.

#### NOTE 40: 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.

## Notes to the Financial Statements 31 July 2014

### NOTE 41: Contingent Liabilities

Contingent Liabilities	Year ended 31 July 2014 \$'000	Year ended 31 July 2013 \$'000
Legal Proceedings	1,031	551

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

On 22 May 2014, the liquidators filed a statement of claim in the Supreme Court of New South Wales in which they have claimed that the transfer of intellectual property was a voidable transaction and seek the return of the intellectual property transferred.

The Group entity filed a defence against the claim on 22 August 2014. The Directors believe, that the original transfer of assets was a legal transaction and, based on legal advice received, determined that no liability arises from this transaction. Accordingly no provision has been made in respect to this claim in these financial statements.

The Company is subject to a royalty claim totalling \$911,000, in respect to disputed IP ownership on a product line. The maximum exposure would be \$480,000, representing the royalty rate across the product sales in dispute. The Company filed a defence against this claim on 17 July 2014, and the Directors believe, based on legal advice received, that the sales in dispute are not subject to any royalty claim. Accordingly, no provision has been made in respect to this claim in the financial statements.

The Company is also subject to a patent infringement claim issued on 22 July 2014. This claim has not been quantified and based on current legal advice, the claim lacks merit. No provision has been made in respect to this claim in the financial statements

Final Madman working capital adjustment

As part of the share sale agreement Funtastic are required to provide final completion accounts and where an objection is received have a period in which to resolve any amount in dispute. Where there is no resolution the parties are to appoint an independent accountant to validate the accounts. Funtastic has received notice of objection on the 29<sup>th</sup> September 2014 from the purchaser and likely that an independent review will be required.

### NOTE 42:

#### 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.

## Additional stock exchange information as at 26 September 2014

### 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	754	-	-
1,001-5,000	1,450	-	-
5,001-10,000	709	-	-
10,001-100,000	1,228	-	-
100,001 and over	410	3	-
	<b>4,551</b>	<b>3</b>	-

### 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

## Additional stock exchange information as at 26 September 2014

Twenty largest quoted equity security holders		Shares	%
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	99,474,978	14.910
2	J P MORGAN NOMINEES AUSTRALIA LIMITED	73,136,334	10.962
3	BELL POTTER NOMINEES LTD <BB NOMINEES A/C>	50,190,414	7.523
4	CITICORP NOMINEES PTY LIMITED	41,835,997	6.271
5	NATIONAL NOMINEES LIMITED	36,852,306	5.524
6	G HARVEY NOMINEES PTY LIMITED	26,470,587	3.968
7	BNP PARIBAS NOMS PTY LTD <DRP>	15,610,232	2.340
8	G HARVEY NOMINEES PTY LTD <HARVEY 1995 DISCRETIONARY AC>	13,820,687	2.072
9	PIZ BY PIZ PTY LTD	11,401,470	1.709
10	MR HOD PIZEM	10,010,234	1.500
11	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	9,460,750	1.418
12	MR NIR PIZMONY & MS MARIA LUTGARDA PIZMONY <PIZMONY FAMILY S/F A/C>	8,733,683	1.309
13	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	7,978,992	1.196
14	CJ PRODUCTS LLC	6,959,137	1.043
15	RENSH PTY LTD	6,000,000	0.899
16	SUPERANNUATION NOMINEES PTY LTD <DDVM SUPERANNUATION FUND A/C>	5,700,438	0.854
17	PHILRENE PTY LTD <PHILRENE SUPERFUND A/C>	5,221,821	0.783
18	ABN AMRO CLEARING SYDNEY	4,196,986	0.629
19	GRANT MACKENZIE	3,454,120	0.518
20	CHRISTOPHER IAN WALLIN	3,192,494	0.478

Unquoted equity securities	Number on Issue	Number of holders
Options issued under the Employee Share Loan Plan	2,700,000	7
Unissued options issued as incentive component of Executive Remuneration	5,000,000	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.