

# **Corporate Governance Statement**

**16 October 2015**



**ACN 063 886 199**

**ABN 94 063 886 199**

## Corporate Governance Statement

The Corporate Governance principles that guide the operations of Funtastic Limited (“Funtastic” or “Company”) are detailed in this statement. Funtastic respects and endorses the ASX Corporate Governance Council’s Principles and Recommendations. The Board believes that it has been compliant with the spirit of the ASX Corporate Governance Council’s principles and recommendations throughout the 2015 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.

### **Principle 1: Lay solid foundations for management and oversight.**

#### **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 undertakes appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director. The company provides security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.**

**The Company has a written agreement with each director and senior executive setting out the terms of their agreement.**

**The Company Secretary provides advice and support to the Board and is responsible for the Company’s day to day governance framework.**

**The Chairman on behalf of the Board undertakes a review of the managing Director’s performance at least on an annual basis. Objectives are set and aligned to the overall business goals and the Company’s requirement of the position.**

The performance of senior management is evaluated by the Managing Director through formal performance reviews undertaken on an annual basis. The individual performance of each Senior Executive is reviewed against goals set in the previous year and new objectives are established for the following financial year. This evaluation process was undertaken in the current reporting period.

#### **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 2015 the group’s mix of employees was as follows:

	Female	Male	Total
General employees	45	18	63
Middle managers	15	11	26
Senior managers	5	17	22
Board	1	4	5
<b>Total</b>	<b>66</b>	<b>50</b>	<b>116</b>

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.

#### **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. This evaluation process was undertaken in the current reporting period. New directors are provided with a letter of appointment setting out the Company’s expectations, their responsibilities, rights and the terms and conditions of

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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.

### ***Principle 2: Structure of the board to add value***

#### ***Nomination Committee***

The current members of the Nomination Committee are Mr Shane Tanner (Chairman), 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.

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.

#### ***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

At the commencement of the financial year, the Board comprised of four non-executive directors and two executive directors (the Chief Executive Officer and the Chief Finance Officer/Chief Operating Officer). This was reduced to three non-executive directors following the resignation of Mr Craig Mathieson during the financial year. The details of each director's qualifications, experience and skills are set out on page 13 of the Annual Report.

#### ***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 five 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 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.

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.

***The chairman of the Board is a non-executive director and is elected by the Board. The chairman is responsible for***

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*the management of the affairs of the Board and represents the Board in periods between Board meetings.*

### **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 the business. 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. 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.

### **Principle 3: Act ethically and responsibly**

#### **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.

#### **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.

#### **Dealings in Funtastic shares by Directors, Officers and Employees**

The Board permits directors to acquire shares in Funtastic. It is recommended that all employees do not buy or sell shares in the company at any time they are aware of any material price sensitive information that has not been made public, and are reminded of the laws against "insider trading".

Certain "Designated Officers", including all directors and senior executives, are also prohibited from trading during certain "blackout" periods. These blackout periods are:

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

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

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

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### **Principle 4: Safeguard integrity in corporate reporting**

#### **Audit, Risk and Compliance Committee**

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 three non-executive directors. Ms Linda Norquay is the chairman of the committee, following the resignation of Mr. Craig Mathieson. The Board considers that three independent directors on the committee are sufficient for the independence of the committee.

#### **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;
- 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.
- 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.

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## **Management Certification Process**

A management certification process operates across the business. The process serves the following purposes:

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

The key steps in the certification process are as follows:

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

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

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

***The external auditor attends the AGM and is available to answer questions from security holders relevant to the audit.***

## **Principle 5: Make timely and balanced disclosure**

### **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.

## **Principle 6: Respect the rights of security holders**

The company maintains a corporate website which provides information freely and readily information to current and potential security holders.

The company actively engages with security holders as well as meeting with security holders upon request and responds to enquiries from time to time.

The company provides the option for security holders to receive communications from, and send communications to, the entity and its security registry electronically.

## **Principle 7: Recognise and manage risk**

### **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;

The board reviews the entity's risk management framework periodically to satisfy itself that it continues to be sound. This review was undertaken during the current reporting period.

### **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 company does not have any material exposure to economic, environmental and social sustainability risks.

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## ***Principle 8: Remunerate fairly and responsibly***

### ***Remuneration and Evaluation Committee***

The members of the Remuneration and Evaluation Committee are Mr Stephen Heath (Chairman), 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.

### ***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.