# MULTI CHANNEL SOLUTIONS LIMITED

A.B.N. 60 006 569 124

## ANNUAL REPORT

### FOR THE YEAR ENDED

### 30 JUNE 2014

## COMPANY INFORMATION

| | |
|---|---|
| Directors in Office: | Desmond Smale (Executive Chairman) |
| | Roger Smith (Non-executive Director) |
| | John White (Non-executive Director, resigned on 4th March 2014) |
| | Clay Moore (Executive Director) |
| Company Secretary: | Roger Smith |
| Auditors: | Hall Chadwick<br>Level 40<br>2 Park Street<br>Sydney NSW 2000 |
| Share Registry: | Computershare Investor Services Pty Ltd.<br>Level 12<br>565 Bourke Street<br>Melbourne, Vic. 3000 |
| Bankers | National Australia Bank<br>Level 1,<br>252 Forest Road<br>Hurstville NSW 2223 |
| Registered Office: | Unit 1, 2 Turbo Road<br>Kings Park, NSW, 2148<br>Telephone (02) 9672 8777<br>Facsimile (02) 9671 1808 |
| Stock Exchange Listing: | The Australian Stock Exchange Limited<br>ASX Code: MUT |

# Financial Report for the Year Ended 30 June 2014

## DIRECTORS' REPORT

Your directors present their report of the company and its controlled entities for the financial year ended 30 June 2014.

**Directors**

The names of directors in office at any time during or since the end of the year are:

Desmond Smale, Executive Chairman

Roger Smith, Non Executive Director

John White, Non Executive Director, resigned on 4th March 2014

Clay Moore, Executive Director

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

**Company Secretary**

The following person held the position of company secretary at the end of the financial year:

Roger Smith

**Principal Activities**

The principal activity of the company during the year consisted of the marketing and distribution of consumer based products. There were no significant changes in the nature of the economic entity's principal activity during the financial year.

**Operating Results**

The consolidated loss of the group after providing for income tax amounted to $3,783,134 (2013: $1,859,140).

**Dividends**

No interim dividend (2013: Nil) was paid during the year. No final dividend is recommended by the Directors.

**Review of Operations**

**Trading Operations**

Revenues from ordinary activities for the year ended 30th June 2014 was $3,702,630 compared to $3,664,796 for the year ended 30th June 2013. This has been one of the most challenging years on record for Australian retail with some retailers closing their distribution centres for one day a week and the closure of various retailers across the country, including the Discount Superstores Group (DSG) one of the Company's customers. Despite these challenging conditions Bronson grew sales by over 4%.

The after tax loss from ordinary activities for the year ended 30th June 2014 was $3,783,134, an increase of $1,923,994 on the previous year. This can be primarily attributed to a number of non-cash items including the impairment of goodwill of $2,317,956, provision for slow moving stock of $143,950 and the provision for profit drawings in advance for Home & Business of $671,516.

**Australian Operations**

The Australian subsidiary, Bronson Marketing Pty. Ltd., was able to hold a steady course during a very turbulent year. We continue to strengthen our core business in personal care with the major retailers and this core business has maintained its improvement in recent months. During the year Bronson branched out into a premium hair care range which unfortunately did not meet with the expected support from the retailer.

As announced to the market in February 2014, the Company signed an agreement with Triple R International Ltd ("Triple R"), a Chinese based company which is supplying Multi Channel with unique and marketable products for retail distribution. Since the signing of this agreement, Multi Channel and Tripe R have now established operations and the Company is pleased to note that whilst in the early stages, sales of Triple R introduced products to new customers for the first quarter of FY 2015 are encouraging.

Having now worked with Triple R for this period, Multi Channel has gained a better understanding of the market opportunity and is now looking to further develop this alliance. The directors consider that the Triple R alliance has the potential to deliver meaningful revenue and margin growth to the Company's business and efforts are being made to further enhance this alliance.

## DIRECTORS' REPORT

### American Operations

Despite the significant effort and resources expended in relation to the American operations in recent years, the Company has been unable to build a sustainable business in this region. A number of unique products have been introduced into this market and while initial indications in relation to a number of these products were promising the level of follow through enquiries and sales were not of sufficient scale to achieve commercial viability.

Accordingly, due to the lack of commercial scale and the strain this operation has placed on the Company's resources, the Board is scaling down these operations to focus primarily on the Australian business and the alliance with Triple R.

### Significant Changes in the State of Affairs

Other than outlined in this report, there is no significant change in the state of the Company's affairs.

### Borrowings issued during the year

A total of $58,041 was raised from convertible notes and loans.

### Information on Directors

| | | |
|---|---|---|
| **Desmond Smale** | — | Chairman and Executive Director |
| Experience and qualifications | — | Appointed Chairman 2007. Board member since 2007. Has a finance and marketing background having held various senior management positions in Qantas Airways. He has guided Bronson Marketing over the last 18 years. |
| Interest in Shares and Options | — | 472,289,494 Ordinary Shares in Multi Channel Solutions Limited and an option to acquire a further 10,000,000 ordinary shares. |
| Directorships held in other listed entities | — | Nil |
| **Roger Smith** | — | Non Executive Director |
| Experience and qualifications | — | Board member since 1991. Has many years experience in retail trade and financial planning. |
| Interest in Shares and Options | — | 7,217,072 Ordinary Shares in Multi Channel Solutions Limited and an option to acquire a further 10,000,000 ordinary shares. |
| Directorships held in other listed entities | — | Nil |
| **John White** | — | Non Executive Director, resigned on 4th March 2014 |
| Experience and qualifications | — | Board member since December 2009. Has vast experience in all aspects of business particularly in direct mailing. He owns and runs a successful and established mailing house facility. |
| Interest in Shares and Options | — | 1,500,000 Ordinary Shares in Multi Channel Solutions Limited. |
| Directorships held in other listed entities | — | Nil |
| **Clay Moore** | — | Executive Director |
| Experience and qualifications | — | Board member since December 2009. Has over 20 years experience in sales and marketing. He is the president - sales and marketing of Home and Business Consumer Products LLC in which he has a 49% shareholding. |
| Interest in Shares and Options | — | an option to acquire 10,000,000 ordinary shares. |
| Directorships held in other listed entities | — | Nil |

## DIRECTORS' REPORT

### REMUNERATION REPORT

The remuneration policy of Multi Channel Solutions Limited has been designed to align key management personnel (KMP) objectives with shareholder and business objectives. The Board of Multi Channel Solutions Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain high-quality KMP to run and manage the consolidated group and to attain the targets set by the Board and management.

This report details the nature and amount of remuneration for each key management person of Multi Channel Solutions Limited, and for the executives receiving the highest remuneration.

Throughout the financial year, the company did not have a remuneration committee as the directors believe the size of the consolidated entity and the size of the Board did not warrant its existence.

The Board's policy for determining the nature and amount of remuneration for KMP of the consolidated group is based on the following:

- All KMP receive a base salary (which is based on factors such as length of service and experience), superannuation and options.
- Incentives paid in the form of options are intended to align the interests of the directors and company with those of the shareholders.

KMP receive a superannuation guarantee contribution required by the government, which is currently 9% of the individual's average weekly ordinary time earnings (AWOTE), and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payment towards superannuation.

Upon retirement, KMP are paid employee benefit entitlements accrued to the date of retirement. Any options not exercised before or on the date of termination will lapse. The Non Executive Directors are not entitled to retirement benefits,

All remuneration paid to KMP is valued at the cost to the company and expensed.

## DIRECTORS' REPORT

**Key Management Personnel Remuneration**

| Key Management Person | Cash, salary and commissions | Superannuation | Options | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **2014** | | | | |
| Desmond Smale | 176,127 | 34,671 | - | 210,798 |
| Michael Willoughby | 81,525 | 30,996 | - | 112,521 |
| Roger Smith | - | - | - | - |
| John White | - | - | - | - |
| Clay Moore | 8,711 | - | - | 8,711 |
| | 266,363 | 65,667 | - | 332,030 |
| **2013** | | | | |
| Desmond Smale | 224,688 | 18,692 | - | 243,380 |
| Errol Graham | 78,271 | 6,577 | - | 84,848 |
| Michael Willoughby | 110,740 | 9,900 | - | 120,640 |
| Roger Smith | - | - | - | - |
| John White | - | - | - | - |
| Clay Moore | - | - | - | - |
| | 413,699 | 35,169 | - | 448,868 |

**Meetings of Directors**

During the financial year, meetings of directors were held. Attendances by each director during the year were as follows:

| | Directors' Meetings | |
|---|---|---|
| | Number eligible to attend | Number attended |
| Desmond Smale | 7 | 7 |
| Roger Smith | 7 | 7 |
| John White | 4 | 4 |
| Clay Moore | 7 | 7 |

**Indemnification and Insurance of Officers and Auditors**

During the year the Company did not take out Directors and Officers Liability Insurance and did not take out any indemnification against company auditors.

**Options**

At the date of this report, the unissued ordinary shares of Multi Channel Solutions Limited under option are as follows:

| Grant Date | Date of Expiry | Exercise Price | Number under Option |
|---|---|---|---|
| 17 November 2010 | 30 November 2014 | $0.04 | 30,000,000 |
| | | | 30,000,000 |

### Events Subsequent to Balance Date

There are no events of a significant nature that have occurred since the end of the financial year that will materially affect the accounts of the Group.

### Environmental Regulations

To the best of the Directors' knowledge, all activities have been undertaken in compliance with the requirements of environmental regulations.

### Corporate Governance

In recognising the need for the highest standard of corporate behaviour and accountability, the directors of Multi Channel Solutions Limited support and have adhered to the principles of good corporate governance. The company's corporate governance statement is on page 49.

### Proceedings on behalf of the company

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

The company was not a party to any such proceedings during the year.

### Non Audit Services

The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by management prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to Hall Chadwick for non-audit services provided during the year ended 30 June 2014.

| | |
|---|---|
| Taxation Services | $450 |

### Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2014 has been received and can be found on page 8 of the financial report.

Desmond Smale, Director

Dated this 29th day of September 2014

HALL CHADWICK

Chartered Accountants and Business Advisers

**MULTI CHANNEL SOLUTIONS LIMITED**
**ABN 60 006 569 124**

**AUDITOR'S INDEPENDENCE DECLARATION**
**UNDER S 307C OF THE CORPORATIONS ACT 2001**
**TO THE DIRECTORS OF MULTICHANNEL SOLUTIONS LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2014 there have been no contraventions of:

(a) the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and

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

Hall Chadwick

Hall Chadwick
Level 40, 2 Park Street
Sydney, NSW 2000

**Drew Townsend**
Partner
Date: 29 September 2014

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## Multi Channel Solutions Limited ABN 60 006 569 124
## and Controlled Entities

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014

| | | Consolidated Group | |
|---|---|---|---|
| | **Note** | **30.06.2014** | **30.06.2013** |
| | | **$** | **$** |
| **Revenue** | 2 | 3,702,630 | 3,664,796 |
| **Expenses** | | | |
| Cost of product sold | | 2,131,731 | 1,172,155 |
| Advertising and media expenses | | 77,574 | 7,398 |
| Travel expenses | | 22,911 | 35,088 |
| Financial expenses | | 449,431 | 393,495 |
| Depreciation and amortisation | | 87,677 | 16,832 |
| Employee benefit expenses | | 782,959 | 880,338 |
| Legal compliance and professional fees | | 120,426 | 126,930 |
| Rental and operating lease expenses | | 171,319 | 168,688 |
| Impairment of goodwill | | 2,317,956 | 1,100,000 |
| Option issue expense | | 52,534 | - |
| Provision for slow moving stock | | 143,950 | - |
| Provision for profit drawings in advance | | 671,516 | 1,080,757 |
| Provision for doubtful debt | | 30,252 | 134,518 |
| Bad debt | | 8,307 | - |
| Warehouse and distribution costs | | 303,408 | 325,983 |
| Other expenses | | 113,813 | 81,754 |
| Total Expenses | | 7,485,764 | 5,523,936 |
| **(Loss) before income tax** | 3 | (3,783,134) | (1,859,140) |
| Income tax benefit/(expense) | 4 | - | - |
| **(Loss) for the year** | | (3,783,134) | (1,859,140) |
| **Other comprehensive income** | | | |
| Items that may be reclassified to profit or loss | | | |
| Adjustments from translation of foreign controlled entities | | (9,840) | 41,338 |
| Other comprehensive income for the year, net of tax | | (9,840) | 41,338 |
| **Total comprehensive income for the year** | | (3,792,974) | (1,817,802) |
| | | | |
| Loss attributable to members of the parent entity | | (3,783,134) | (1,859,140) |
| | | (3,783,134) | (1,859,140) |
| Total comprehensive income attributable to members of the parent entity | | (3,792,974) | (1,817,802) |
| | | (3,792,974) | (1,817,802) |
| **Earnings per share** | | | |
| From continuing operations | | | |
| Basic earnings per share (cents) | 8a | (0.05630) | (0.01086) |
| Diluted earnings per share (cents) | 8b | (0.02837) | (0.00218) |

The accompanying notes form part of these financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

| | | Consolidated Group | |
|---|---|---|---|
| | Note | 30.06.2014 | 30.06.2013 |
| | | $ | $ |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 9 | 13,747 | 52,489 |
| Trade and other receivables | 10 | 607,155 | 740,713 |
| Inventories | 11 | 680,882 | 548,301 |
| Other current assets | 16 | 17,678 | 405,733 |
| TOTAL CURRENT ASSETS | | 1,319,462 | 1,747,236 |
| **NON-CURRENT ASSETS** | | | |
| Plant and equipment | 14 | 37,227 | 70,502 |
| Other non-current assets | 16 | - | 300,901 |
| Intangible assets | 15 | 230,137 | 2,394,921 |
| TOTAL NON-CURRENT ASSSETS | | 267,364 | 2,766,324 |
| **TOTAL ASSETS** | | 1,586,826 | 4,513,560 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 17 | 1,151,023 | 609,397 |
| Short-term provisions | 18 | 154,706 | 154,911 |
| Current tax liabilities | 19 | - | - |
| Financial liabilities | 20 | 766,361 | 782,254 |
| TOTAL CURRENT LIABILITIES | | 2,072,090 | 1,546,562 |
| **NON-CURRENT LIABILITIES** | | | |
| Financial liabilities | 20 | 3,180,538 | 3,122,497 |
| TOTAL NON-CURRENT LIABILITIES | | 3,180,538 | 3,122,497 |
| **TOTAL LIABILITIES** | | 5,252,628 | 4,669,059 |
| **NET ASSETS** | | (3,665,802) | (155,499) |
| **EQUITY** | | | |
| Issued capital | 21 | 8,431,687 | 8,281,687 |
| Reserves | 22 | 180,923 | 376,248 |
| Retained earnings | | (12,278,483) | (8,813,505) |
| **Parent interest** | | (3,665,873) | (155,570) |
| Non controlling interests | | 71 | 71 |
| **TOTAL EQUITY** | | (3,665,802) | (155,499) |

The accompanying notes form part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2014

**Consolidated Group**

| | Share Capital Ordinary | Accumulated (Losses)/ Profit | Option Reserve | Foreign Currency Translation Reserve | Non Controlling Interests | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Balance at 1.7.2012** | 8,181,687 | (7,386,654) | 1,000,329 | (233,130) | 71 | 1,562,303 |
| Loss attributable to members of parent entity | - | (1,859,140) | - | - | - | (1,859,140) |
| Shares issued during the period | 100,000 | - | - | - | - | 100,000 |
| Transfer of expired options from option reserve to accumulated losses | - | 432,289 | (432,289) | - | - | - |
| Total other comprehensive income for the year | - | - | - | 41,338 | - | 41,338 |
| **Balance at 30.06.2013** | 8,281,687 | (8,813,505) | 568,040 | (191,792) | 71 | (155,499) |
| | | | | | | |
| **Balance at 1.7.2013** | 8,281,687 | (8,813,505) | 568,040 | (191,792) | 71 | (155,499) |
| Loss attributable to members of parent entity | - | (3,783,134) | - | - | - | (3,783,134) |
| Shares issued during the period | 150,000 | - | - | - | - | 150,000 |
| Transfer of expired options from option reserve to accumulated losses | - | 318,156 | (318,156) | - | - | - |
| Options issued during the period | - | - | 132,671 | - | - | 132,671 |
| Total other comprehensive income for the year | - | - | - | (9,840) | - | (9,840) |
| **Balance at 30.06.2014** | 8,431,687 | (12,278,483) | 382,555 | (201,632) | 71 | (3,665,802) |

The accompanying notes form part of these financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2014

| | Note | Consolidated Group 30.06.2014 $ | Consolidated Group 30.06.2013 $ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | 3,826,863 | 3,774,584 |
| Payments to suppliers | | (3,572,868) | (3,658,989) |
| Interest received | | 191 | 1,036 |
| Interest paid | | (350,623) | (334,579) |
| Income tax paid | | - | (35,696) |
| Other income | | 9,134 | 19,783 |
| **Net cash (outflow)/inflow from operating activities** | 26b | (87,303) | (233,861) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payment for plant and equipment | | (2,732) | (6,914) |
| Payment for intangible assets | | - | (28,862) |
| Proceeds from sale of plant and equipment | | 24,941 | - |
| **Net cash (outflow)/inflow from investing activities** | | 22,209 | (35,776) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of shares | | - | 100,000 |
| Repayment of hire purchase liabilities | | - | (15,163) |
| Payments to related parties | | - | (77,955) |
| Proceeds from convertible notes | | 50,000 | - |
| Repayment of convertible notes | | (25,000) | - |
| Proceeds from borrowings | | 33,041 | 645,152 |
| Repayment of borrowings | | - | (200,000) |
| **Net cash inflow/(outflow) from financing activities** | | 58,041 | 452,034 |
| Net increase/(decrease) in cash held | | (7,053) | 182,397 |
| Cash at beginning of year | | (445,785) | (628,957) |
| Effect of exchange rates on cash holdings in foreign currencies | | 195 | 775 |
| Cash at end of year | 26a | (452,643) | (445,785) |

The accompanying notes form part of these financial statements.

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report includes the consolidated financial statements and notes of Multi Channel Solutions Limited and controlled entities ('Consolidated Group' or 'Group').

The separate financial statements of the parent entity, Multi Channel Solutions Limited, have not been presented within this financial report as permitted by the Corporations Act 2001.

The financial report was authorised for issue on 30 September 2014 by the Board of Directors.

**Basis of Preparation**

These general purpose financial statements have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

**New and Amended Accounting Policies Adopted by the Group**

**Consolidated financial statements**

The Group adopted the following Australian Accounting Standards, together with the relevant consequential amendments rising from related Amending Standards, from the mandatory application date of 1 January 2013:

– AASB 10: *Consolidated Financial Statements*;

– AASB 12: *Disclosure of Interests in Other Entities*; and

– AASB 127: *Separate Financial Statements*.

AASB 10 provides a revised definition of "control" and may result in an entity having to consolidate an investee that was not previously consolidated and/or deconsolidate an investee that was consolidated under the previous accounting pronouncements.

The Group has applied these Accounting Standards with retrospective effect in accordance with their transitional requirements. The Group has:

– presented quantitative information of the comparative period reflecting the adoption of AASB 10; and

– with respect to any previously unconsolidated investee that is a business, measured the assets, liabilities and non-controlling interests as if the investee had been consolidated in accordance with the applicable version of AASB 3: *Business Combinations* from the date when the Group gained control of the investee. When the date that control was obtained was earlier than the beginning of the immediately preceding period, the Group recognises, as an adjustment to equity at the beginning of the comparative period, any difference between:

    - the amount of assets, liabilities and non-controlling interests recognised; and

    - the previous carrying amount of the Group's involvement with the investee.

The first-time application of AASB 10 has not resulted in the changes to the Group's financial statements.

a. **Going Concern**

The financial statements have been prepared on the going concern basis, which assumes the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The net loss after income tax for the consolidated entity for the financial year ended 30 June 2014 was $3,783,134, and as at 30 June 2014, total liabilities exceeded total assets by $3,665,802.

The Directors nevertheless believe that it is appropriate to prepare the financial report on a going concern basis for the following reasons:-

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

- The Group has raised funds throughout the year through convertible notes and loans to fund the company's ongoing working capital requirements.
- The Group has the ability to raise further funding for its operations through the further issue of convertible notes, equity or loans.
- Based on the Group's budget for the year ended June 2015, the directors expect the Group to be profitable in the 2015 financial year.
- The diversification into new categories will broaden the Group distribution base and revenue stream.

b. **Principles of Consolidation**

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Multi Channel Solutions Limited at the end of the reporting period. A controlled entity is any entity over which Multi Channel Solutions Limited has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 13 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the equity section of the consolidated statement of financial position and statement of comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

*Reverse Acquisition*

The consolidated financial statements have been prepared using reverse acquisition accounting. In reverse acquisition accounting, the cost of the business combination is deemed to have been incurred by the legal subsidiary Bronson Marketing Pty Ltd (the acquirer for accounting purposes) in the form of equity instruments issued to the owners of the legal parent, Multi Channel Solutions Limited (the acquiree for accounting purposes).

As set out in Note 15, goodwill has been fully impaired. As at 30 June 2014, the carrying value of this goodwill was Nil (2013: $2,317,956).

*Business Combinations*

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

c. **Income Tax**

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

*Tax Consolidation*

Multi Channel Solutions Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. Each entity in the group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity. The group notified the Australian Tax Office that it had formed an income tax consolidated group under the tax consolidation regime. The tax consolidated group has entered a tax funding arrangement whereby each company in the group contributes to the income tax payable by the group in proportion to their contribution to the group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding arrangement are recognised as either a contribution by, or distribution to the head entity

d. **Inventories**

Inventories are measured at the lower of cost and net realisable value.

e. **Plant and Equipment**

Each class of plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment is measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

**Depreciation**

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line or diminishing value basis as appropriate over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate |
|---|---|
| Plant and equipment | 11–40% |
| Office equipment | 10– 50% |

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

f. **Impairment of Assets**

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

g. **Intangibles**

**Goodwill**

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

(i) the consideration transferred;

(ii) any non-controlling interest; and

(iii) the acquisition date fair value of any previously held equity interest,

over the acquisition date fair value of net identifiable assets acquired.

The value of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the aforementioned non-controlling interest. The Group can elect to measure the non-controlling interest in the acquiree either at fair value (*full goodwill method*) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (*proportionate interest method*). The Group determines which method to adopt for each acquisition.

Under the *full goodwill method*, the fair values of the non-controlling interests are determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interests is recognised in the consolidated financial statements.

Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is tested for impairment annually and is allocated to the Group's cash generating units or groups of cash generating units, which represent the lowest level at which goodwill is monitored but where such level is not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying values of goodwill.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**Patents and web design**

Patents and web design are recognised at cost. Patents and web design have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and web design are amortised over their useful life.

| Class of Intangible Asset | Useful Life |
|---|---|
| Patents | 10 years |
| Web design | 2 years |

h. **Foreign Currency Transactions and Balances**

**Functional and presentation currency**

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

**Transaction and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the gain or loss is directly recognised in other comprehensive income, otherwise the exchange difference is recognised in the statement of profit or loss.

**Group companies**

The financial results and position of foreign operations, whose functional currency is different from the Group's presentation currency, are translated as follows:

— assets and liabilities are translated at exchange rates prevailing at the end of the reporting period;

— income and expenses are translated at average exchange rates for the period; and

— retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. The cumulative amount of these differences is reclassified into profit or loss in the period in which the operation is disposed of.

i. **Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

j. **Provisions**

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

k. **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

l. **Revenue**

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

All revenue is stated net of the amount of goods and services tax (GST).

m. **Trade, Other Receivables and Other Assets**

(i) Trade and other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

(ii) Other Assets

Other Assets include amounts receivable under the joint venture agreement between Home & Business Consumer Products LLC. Other assets expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other amounts are classified as non-current assets.

Other assets are initially recognised at fair value and subsequently measured at amortised cost, less any provision for impairment. Refer to Note 16 for further discussion on Other Assets.

n. **Borrowing Costs**

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

o. **Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

p. **Share-based payments**

Equity-settled share-based payments are measured at fair value at the date of grant, Fair value is measured by use of the Black Scholes Option Pricing model. The expected life used in the model has been adjusted, based on management’s best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

q. **Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Where the group has retrospectively applied an accounting policy, made a retrospective restatement of items in the financial statements or reclassified items in its financial statements, an additional statement of financial position as at the beginning of the earliest comparative period will be disclosed.

r. **Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

**Key Estimates**

*Key Estimates — Impairment*

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

The discounted cash flow method has been used to arrive at the carrying value of goodwill in the accounts.

An impairment of $2,317,956 has been recognised in respect of goodwill in the current reporting period.

**Key Judgements**

Provision for impairment of non current assets

We are of the opinion that it is prudent to fully impair goodwill and provide for the profit drawings in advance account at 30th June 2014 at this juncture of the Company's development.

Provision for slow moving stock

$143,950 is provided for slow moving stock.

| | Consolidated Group | |
|---|---|---|
| | **2014** | **2013** |
| | **$** | **$** |
| **NOTE 2: REVENUE** | | |
| **Revenue from operating activities** | | |
| Product Sales | 3,693,305 | 3,643,977 |
| Interest received or due and receivable from other persons | 191 | 1,036 |
| Other revenue | 9,134 | 19,783 |
| | 3,702,630 | 3,664,796 |

**NOTE 3: OPERATING (LOSS)**

| | 2014 | 2013 |
|---|---|---|
| **(Loss) before income tax expense includes the following expenses** | | |
| Cost of product sold | 2,131,731 | 1,172,155 |
| Financial expenses | 449,431 | 393,495 |
| Depreciation and amortisation | 87,677 | 16,832 |
| Employee benefit expenses | 782,959 | 880,338 |
| Rental and operating lease expenses | 171,319 | 168,688 |
| Impairment of goodwill | 2,317,956 | 1,100,000 |
| Provision for slow moving stock | 143,950 | - |
| Provision for profit drawings in advance | 671,516 | 1,080,757 |
| Provision for doubtful debt | 30,252 | 134,518 |
| Bad debt | 8,307 | - |
| Legal compliance and professional fees | 120,426 | 126,930 |
| Warehouse and distribution costs | 303,408 | 325,983 |

## NOTE 4: INCOME TAX EXPENSE

| | | Consolidated Group | |
|---|---|---|---|
| | | 2014 | 2013 |
| | | $ | $ |
| a. | The components of income tax expense comprise: | | |
| | Current tax | | - |
| | Deferred tax | (1,157,077) | (581,833) |
| | Utilisation of deferred tax assets previously not recognised | - | - |
| | Deferred tax assets not recognised (losses) | 199,745 | 16,226 |
| | Deferred tax assets not recognised (temporary) | 957,332 | 565,606 |
| | | - | - |
| b. | The prima facie tax on (loss) from ordinary activities before income tax is reconciled to the income tax as follows: | | |
| | Prima facie tax payable on (loss) from ordinary activities before income tax at 30% (2013: 30%) | (1,134,940) | (557,742) |
| | Add: | | |
| | Tax effect of: | | |
| | — Sale of fixed assets | 5,704 | - |
| | — Other non-allowable items | 1,605 | 3,195 |
| | — Share options expensed during year | 15,706 | - |
| | Less: | | |
| | Tax effect of: | | |
| | — Difference in tax rate | (45,205) | (27,286) |
| | — Utilisation of deferred tax assets previously not recognised | - | - |
| | — Deferred tax assets not recognised (losses) | 199,745 | 16,226 |
| | — Deferred tax assets not recognised (temporary) | 957,332 | 565,606 |
| | Income tax expense/(benefit) | - | - |

The deferred tax assets on carried forward tax losses is $(3,809,246) (2013:$(3,609,501)).

## NOTE 5: INTERESTS OF KEY MANAGEMENT PERSONNEL (KMP)

a. **Names and positions held of consolidated and parent entity key management personnel in office at any time during the financial year are:**

| Key Management Person | Position |
|---|---|
| Desmond Smale | Managing Director and Chairman |
| Roger Smith | Non Executive Director and Company Secretary (Appointed 1 February2014) |
| John White | Non Executive Director |
| Clay Moore | Executive Director |
| Michael Willoughby | Company Secretary and Chief Financial Officer (Resigned 31 January 2014) |

### NOTE 5: INTERESTS OF KEY MANAGEMENT PERSONNEL (KMP) (cont)

The totals of remuneration paid to KMP of the company and the Group during the year are as follows.

| | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| Short-term employee benefits | 266,363 | 413,699 |
| Post-employment benefits | 65,667 | 35,169 |
| | 332,030 | 448,868 |

**Key management personnel remuneration has been included in the Remuneration Report section of the Directors Report**

b. **KMP Options and Rights Holdings**

The Number of Options over ordinary shares held by each KMP of the group during the financial year.

| | Balance 1.7.2013 | Granted as Compensation and Exercisable | Options Expired | Balance 30.06.2014 |
|---|---|---|---|---|
| Desmond Smale | 17,500,000 | - | (7,500,000) | 10,000,000 |
| Roger Smith | 17,500,000 | - | (7,500,000) | 10,000,000 |
| John White | 17,500,000 | - | (17,500,000) | - |
| Clay Moore | 17,500,000 | - | (7,500,000) | 10,000,000 |
| Total | 70,000,000 | - | (40,000,000) | 30,000,000 |

| | Balance 1.7.2012 | Granted as Compensation and Exercisable | Options Expired | Balance 30.06.2013 |
|---|---|---|---|---|
| Desmond Smale | 22,500,000 | - | (5,000,000) | 17,500,000 |
| Roger Smith | 22,500,000 | - | (5,000,000) | 17,500,000 |
| John White | 22,500,000 | - | (5,000,000) | 17,500,000 |
| Clay Moore | 22,500,000 | - | (5,000,000) | 17,500,000 |
| Errol Graham | 22,500,000 | - | (22,500,000) | - |
| Total | 112,500,000 | - | - | 70,000,000 |

## NOTE 5: INTERESTS OF KEY MANAGEMENT PERSONNEL (KMP) (CONTINUED)

c. **KMP Shareholdings**

The number of ordinary shares held by each KMP of the group during the financial year

| | Balance 01.07.2013 | Received as Compensation | Options Exercised | Net Change Other* | Balance 30.06.2014 |
|---|---|---|---|---|---|
| Desmond Smale | 472,289,494 | - | - | - | 472,289,494 |
| Roger Smith | 7,217,072 | - | - | - | 7,217,072 |
| John White | 1,500,000 | - | - | - | 1,500,000 |
| Clay Moore | - | - | - | - | - |
| Michael Willoughby | - | - | - | - | - |
| Total | 481,006,566 | - | - | - | 481,006,566 |

| | Balance 01.07.2012 | Received as Compensation | Options Exercised | Net Change Other* | Balance 30.06.2013 |
|---|---|---|---|---|---|
| Desmond Smale | 472,289,494 | - | - | - | 472,289,494 |
| Roger Smith | 7,217,072 | - | - | - | 7,217,072 |
| John White | 1,500,000 | - | - | - | 1,500,000 |
| Clay Moore | - | - | - | - | - |
| Errol Graham | - | - | - | - | - |
| Total | 481,006,566 | - | - | - | 481,006,566 |

* Net Change Other refers to shares purchased or sold during the financial year.

## NOTE 6: AUDITORS' REMUNERATION

| | Consolidated Group | |
|---|---|---|
| | 2014 $ | 2013 $ |
| Remuneration of the auditor of the parent entity for: | | |
| — audit and review of the financial report | 80,061 | 78,623 |
| — taxation services | 450 | 6,900 |
| Total | 80,511 | 85,523 |

## NOTE 7: DIVIDENDS

No dividends have been paid during the financial year.

## NOTE 8: EARNINGS PER SHARE

| | | | Consolidated Group | |
|---|---|---|---|---|
| | | | 2014 | 2013 |
| a. | Net (loss) used in the calculation of basic EPS | $ | (3,783,134) | (1,859,140) |
| | Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share. | No. | 67,193,470 | 41,805,342 |
| b. | Net (loss) used in the calculation of diluted EPS | $ | (3,783,134) | (1,859,140) |
| | Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share. | No. | 133,357,853 | 111,805,342 |

| | Consolidated Group | |
|---|---|---|
| | 2014<br>$ | 2013<br>$ |
| **NOTE 9: CASH AND CASH EQUIVALENTS** | | |
| Cash at bank and on hand | 13,747 | 52,489 |
| | 13,747 | 52,489 |

## NOTE 10: TRADE AND OTHER RECEIVABLES

| CURRENT | | |
|---|---|---|
| Trade receivables | 691,568 | 939,764 |
| Less provision for settlement discount | (54,161) | (51,082) |
| Less provision for doubtful debt | (30,252) | (147,969) |
| | 607,155 | 740,713 |

Contract terms are up to 70 days. Of the above amount $792 (2013: $17,852) is past due not impaired. Settlement discounts are provided as part of trading terms for payment within specified time frames.

## NOTE 11: INVENTORIES

| CURRENT | | |
|---|---|---|
| Finished Goods, at cost | 811,950 | 516,706 |
| Stock in transit, at cost | 12,882 | 31,595 |
| Less provision for slow moving stock | (143,950) | - |
| | 680,882 | 548,301 |

## NOTE 12: PARENT INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Accounting Standards.

| | Parent Entity | |
|---|---|---|
| | **2014** | **2013** |
| | **$** | **$** |
| **Financial position of the parent entity at year end** | | |
| Current assets | 1,905 | 34,496 |
| Total assets | 232,242 | 2,352,652 |
| Current Liabilities | 198,171 | 139,495 |
| Total liabilities | 3,056,391 | 2,693,716 |
| **Total equity of the parent entity comprising of:** | | |
| Share capital | 36,728,804 | 36,578,804 |
| Reserves | 1,235,338 | 1,102,668 |
| Retained earnings | (40,788,290) | (38,022,536) |
| **Total equity** | (2,824,148) | (341,064) |
| | | |
| **Statement of Profit or Loss and Other Comprehensive Income** | | |
| Total loss | (2,765,754) | (1,583,005) |
| Total comprehensive income | (2,765,754) | (1,583,005) |

**Parent entity guarantees in respect of its subsidiaries**

The parent entity has guaranteed the liabilities of its subsidiary, Bronson Marketing Pty Ltd, to its bankers.

**Contingent liabilities**

Multi Channel Solutions Limited does not have any contingent liabilities at 30 June 2014.

## NOTE 13: CONTROLLED ENTITIES

a. **Controlled Entities Consolidated**

| | Country of Incorporation | Percentage Owned (%)* | |
|---|---|---|---|
| | | **2014** | **2013** |
| Subsidiaries of Multi Channel Solutions Limited | | | |
| Bronson Marketing Pty Ltd | Australia | 100% | 100% |
| Icon Marketing International Pty Ltd # | Australia | 100% | 100% |
| Bay Street Brands LLC (subsidiary of Icon Marketing International Pty Ltd) | United States | 100% | 100% |
| Ab Solutions LLC (subsidiary of Icon Marketing International Pty Ltd) # | United States | 80.16% | 80.16% |
| Home & Business Consumer Products LLC | United States | 51% | 51% |

*# These companies did not trade during the financial year*

** Percentage of voting power is in proportion to ownership*

b. **Controlled Entities**

No controlled entities were acquired or disposed of during the financial year.

## NOTE 14: PLANT AND EQUIPMENT

| | Consolidated Group | |
|---|---|---|
| | **2014** | **2013** |
| | **$** | **$** |
| Office furniture and equipment, motor vehicles | 190,608 | 334,670 |
| Less accumulated depreciation | (153,381) | (264,168) |
| | 37,227 | 70,502 |
| Opening Balance | 70,502 | 80,419 |
| Additions | 2,732 | 6,915 |
| Disposals | (24,941) | - |
| Depreciation | (11,066) | (16,832) |
| | 37,227 | 70,502 |

## NOTE 15: INTANGIBLE ASSETS

| | 2014 | 2013 |
|---|---|---|
| Goodwill at cost | 14,791,630 | 14,791,630 |
| Less accumulated impairment losses | (14,791,630) | (12,473,674) |
| | - | 2,317,956 |
| Patent & web design, at cost | 76,965 | 76,965 |
| Less accumulated impairment losses | (76,965) | - |
| | - | 76,965 |
| Supply agreement | 230,137 | - |
| Net carrying value | 230,137 | 2,394,921 |

| | **Goodwill & Supply Agreement** | **Patent & Web Design** |
|---|---|---|
| | **$** | **$** |
| **Consolidated Group:** | | |
| **Year ended 30 June 2013** | | |
| Balance at the beginning of the year | 3,417,956 | 48,104 |
| Additions | - | 28,861 |
| Amortisation charge | - | - |
| Impairment losses | (1,100,000) | - |
| Carrying value at 30 June 2013 | 2,317,956 | 76,965 |
| **Year ended 30 June 2014** | | |
| Balance at the beginning of the year | 2,317,956 | 76,965 |
| Additions | 230,137 | - |
| Amortisation charge | - | (76,965) |
| Impairment losses | (2,317,956) | - |
| Closing value at 30 June 2014 | 230,137 | - |

Goodwill and Patent & web design have been fully impaired and amortised at 30 June 2014.

**Supply Agreement Disclosure**

Supply Agreement is allocated to cash-generating units which are based on the Group's reporting segments.

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| Distribution segment | 230,137 | - |
| Total | 230,137 | - |

The recoverable amount of the cash-generating unit above is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a five-year period. The cash flows are discounted using a discount rate of 15%, based on a weighted average of the group's debt facilities, inclusive of a risk free premium.

The following assumptions were used in the value-in-use calculations:

| | Year | Growth Rate | Discount Rate |
|---|---|---|---|
| Distribution segment | 2016-2019 | 5% | 15.0% |

Management has based the value-in-use calculations on budgets for each reporting segment. These budgets use future estimated average growth rates. Costs are calculated taking into account forecasted costs as well as estimated inflation rates over the period. For financial year 2015, the revenue used in the calculation is based on the budget. We are forecasting a revenue growth rate of 5% for revenue generated by Supply Agreement for financial year 2016 to 2019. This incorporates revenue from all new lines.

| | Consolidated Group | |
|---|---|---|
| | **2014** | **2013** |
| | **$** | **$** |
| **NOTE 16: OTHER ASSETS** | | |
| CURRENT | | |
| Prepayments and deposits | 17,678 | 66,565 |
| Profit drawings in advance (i) | - | 339,168 |
| | 17,678 | 405,733 |
| NON-CURRENT | | |
| Profit drawings in advance (i) | 2,512,755 | 2,216,984 |
| Less provision for profit drawings in advance (i) | (2,512,755) | (1,916,083) |
| | - | 300,901 |

(i) Profit drawings in advance is fully provided for at 30th June 2014 at this juncture of the Company's development.

| | | |
|---|---|---|
| **NOTE 17: TRADE AND OTHER PAYABLES** | | |
| CURRENT | | |
| Trade Creditors | 897,775 | 337,489 |
| Sundry creditors and accrued expenses | 253,248 | 271,908 |
| | 1,151,023 | 609,397 |

| | | |
|---|---|---|
| **NOTE 18: SHORT TERM PROVISIONS** | | |
| Employee entitlements | 154,706 | 154,911 |
| | 154,706 | 154,911 |
| Opening Balance | 154,911 | 134,730 |
| Additional provisions | 57,367 | 71,642 |
| Amounts used | (57,572) | (51,461) |
| | 154,706 | 154,911 |

| | Consolidated Group | |
|---|---|---|
| | 2014 | 2013 |
| | $ | $ |
| **NOTE 19: CURRENT TAX LIABILITY** | | |
| Opening balance | - | 34,986 |
| Additional provision | - | 710 |
| Payments | - | (35,696) |
| | - | - |

| | 2014 | 2013 |
|---|---|---|
| **NOTE 20: BORROWINGS** | | |
| CURRENT | | |
| Secured liabilities | | |
| Bank overdrafts | 466,390 | 498,274 |
| Trade finance | 299,971 | 283,980 |
| Total current borrowings | 766,361 | 782,254 |
| NON-CURRENT | | |
| Unsecured liabilities | | |
| Convertible notes | 1,915,000 | 1,890,000 |
| Loans from shareholders | 802,777 | 787,345 |
| Loans from related parties | 180,152 | 95,152 |
| Other loans | 282,609 | 350,000 |
| Total non-current borrowings | 3,180,538 | 3,122,497 |
| Total borrowings | 3,946,899 | 3,904,751 |

Convertible notes are issued for a term of 12 months and 24 months and on expiry can be converted into ordinary shares or redeemed for their face value. The conversion price is the weighted average price of the shares for the last five trading days prior to exercise date less a discount of 25% of this value. The interest rates applicable are 15% per annum on $430,000, 11% per annum on $1,435,000 and 10% per annum on $50,000. No convertible notes are due to expire within 12 months of balance date.

Other loans are issued for a term of between 13 months and 24 months and are repayable on the loan maturity date. The interest rate applicable on shareholder loans of $802,777 is nil. The interest rates on related party loans are 15% per annum on $95,152 and 11% per annum on $85,000. The interest rates on other loans from non-related parties are 11% per annum on $215,000, 15% per annum on $50,000 and 21% per annum on $17,609.

The bank overdraft and trade finance are secured by way of a charge over debtors and guarantees provided by Desmond Smale, Jennifer Smale, Scanbeer Pty Ltd and Multi Channel Solutions Limited.

## NOTE 21: ISSUED CAPITAL

| | Consolidated Group 2014 | 2013 |
|---|---|---|
| 99,111,278 (2013: 49,111,278) fully paid ordinary shares | 8,431,687 | 8,281,687 |
| | 8,431,687 | 8,281,687 |

a. **Ordinary shares**

| | No. | No. |
|---|---|---|
| At the beginning of reporting period | 49,111,278 | 28,277,945 |
| Shares issued during the year | | |
| - *05 November 2012* | - | 20,833,333 |
| - *19 February 2014* | 50,000,000 | - |
| At the end of the reporting period | 99,111,278 | 49,111,278 |

| | $ | $ |
|---|---|---|
| At the beginning of reporting period | 8,281,687 | 8,181,687 |
| Shares issued during the year | | |
| - 05 November 2012 | - | 100,000 |
| - 19 February 2014 | 150,000 | - |
| At the end of the reporting period | 8,431,687 | 8,281,687 |

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands

b. **Options**

i. For information relating to the Multi Channel Solutions Limited options, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 27 Share-based Payments.

ii. For information relating to share options issued as acquisition options and outstanding at year-end, refer to Note 27 Share-based Payments.

c. **Capital Management**

Management controls the capital of the group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The group's debt and capital includes ordinary share capital, convertible notes and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

## NOTE 22: RESERVES

a. **Foreign Currency Translation Reserve**

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

b. **Option Reserve**

The option reserve records items recognised as expenses on valuation of employee share options and items recognised as asset on valuation of share based payment.

## NOTE 23: CAPITAL AND LEASING COMMITMENTS

| | Consolidated Group | |
|---|---|---|
| | **2014** | **2013** |
| | **$** | **$** |
| a. **Operating Lease Commitments** | | |
| Non-cancellable operating leases contracted for but not capitalised in the financial statements | | |
| Payable | | |
| minimum lease payments | | |
| — not later than twelve months | 136,081 | 144,372 |
| — Later than twelve months but not later than 5 years | - | 132,341 |
| | 136,081 | 276,713 |

The property lease is non-cancellable with a 5 year term, and rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by CPI per annum. An option exists to renew the head office lease at the end of the five year term for an additional term of three years. A security deposit of $61,871.00 is guaranteed by the bank.

b. **Hire Purchase Commitments**

There no hire purchase commitments.

## NOTE 24: CONTINGENT LIABILITIES

There are no contingent liabilities within the group at reporting date.

## NOTE 25: SEGMENT REPORTING

### Segment Information

**Identification of reportable segments**

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

The Group is managed primarily on the basis of geographic segments. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the type or class of customer for the products or service;
- the distribution method; and
- external regulatory requirements.

**Types of products and services by segment**

(i) *USA*

Supplies consumer products to USA Club stores and retail groups.

(ii) *Australia*

Marketing and distribution of consumer based products to large retailers.

(iii) *Corporate*

Provide corporate and legal services to the Group.

**Basis of accounting for purposes of reporting by operating segments**

*Accounting policies adopted*

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision makers with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

*Inter-segment transactions*

All such transactions are eliminated on consolidation in the Group's financial statements.

*Segment assets*

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

*Segment liabilities*

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Segment liabilities include trade and other payables and certain direct borrowings.

**NOTE 25: SEGMENT REPORTING (CONTINUED)**

| | USA | Australia | Corporate | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **(i) Segment Performance** | | | | |
| **Year Ended 30.06.2014** | | | | |
| **Revenue** | | | | |
| External Sales | 56,633 | 3,636,672 | - | 3,693,305 |
| Interest Income | - | 1 | 190 | 191 |
| Other Revenue | - | 9,134 | - | 9,134 |
| Inter-Segment Sales | - | - | - | - |
| **Total Segment Revenue** | **56,633** | **3,645,807** | **190** | **3,702,630** |
| Inter-Segment Elimination | - | - | - | - |
| **Total Group Revenue** | **56,633** | **3,645,807** | **190** | **3,702,630** |
| **Segment Net (Loss)/Profit (before tax)** | **(904,107)** | **(113,273)** | **(2,765,754)** | **(3,783,134)** |
| **Year Ended 30.06.2013** | | | | |
| **Revenue** | | | | |
| External Sales | 178,367 | 3,465,610 | - | 3,643,977 |
| Interest Income | - | 2 | 1,034 | 1,036 |
| Other Revenue | - | 19,783 | - | 19,783 |
| Inter-Segment Sales | - | 162,654 | 6,000 | 168,654 |
| **Total Segment Revenue** | **178,367** | **3,648,049** | **7,034** | **3,833,450** |
| Inter-Segment Elimination | - | (162,654) | (6,000) | (168,654) |
| **Total Group Revenue** | **178,367** | **3,485,395** | **1,034** | **3,664,796** |
| **Segment Net (Loss)/Profit (before tax)** | **(545,715)** | **269,580** | **(1,583,005)** | **(1,859,140)** |

## NOTE 25: SEGMENT REPORTING (CONTINUED)

| | USA | Australia | Corporate | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **(ii) Segment Assets** | | | | |
| **As at 30.06.2014** | | | | |
| **Segment Assets** | 857,371 | 8,645,982 | 232,242 | 9,735,595 |
| Segment asset increases for the period | | | | |
| Capital Expenditure | - | 2,732 | - | 2,732 |
| Inter-segment eliminations | (844,674) | (7,306,727) | (100) | (8,151,501) |
| **Total Group Assets** | **12,697** | **1,341,987** | **232,142** | **1,586,826** |
| **As at 30.06.2013** | | | | |
| **Segment Assets** | 1,745,630 | 8,244,982 | 2,352,652 | 12,343,264 |
| Segment asset increases for the period | | | | |
| Capital Expenditure | 28,170 | 6,915 | - | 35,085 |
| Inter-segment eliminations | (866,990) | (6,997,698) | (100) | (7,864,788) |
| **Total Group Assets** | **906,810** | **1,254,199** | **2,352,552** | **4,513,561** |
| **(iii) Segment Liabilities** | | | | |
| **As at 30.06.2014** | | | | |
| Segment Liabilities | 8,085,556 | 9,587,126 | 3,056,391 | 20,729,073 |
| Inter-segment eliminations | (8,068,066) | (6,979,811) | (428,568) | (15,476,445) |
| **Total Liabilities** | **17,490** | **2,607,315** | **2,627,823** | **5,252,628** |
| **As at 30.06.2013** | | | | |
| Segment Liabilities | 7,669,376 | 9,077,036 | 2,693,716 | 19,440,128 |
| Inter-segment eliminations | (7,570,833) | (6,981,167) | (219,069) | (14,771,069) |
| **Total Liabilities** | **98,543** | **2,095,869** | **2,474,647** | **4,669,059** |

**(iv)** ***Major customers***

The Group has a number of customers to which it provides products. In the USA segment, the Group supplied one single external customer which accounts for 52.32% of external revenue (2013: 52.30%). The next most significant client accounts for 16.83% (2013: 16.60%).

In the Australia segment the Group supplies one external customer which accounts for 55.20% of external revenue (2013: 58.26%). The next most significant client accounts for 13.70% (2013: 15.82%).

## NOTE 26: CASH FLOW INFORMATION

| | | Note | Consolidated Group 2014 $ | Consolidated Group 2013 $ |
|---|---|---|---|---|
| a. | **Reconciliation of Cash Flow** | | | |
| | Cash at the end of the financial year as showing in the statement of cash flows is balanced to items in the statement of financial position as follows: | | | |
| | Cash and cash equivalents | 9 | 13,747 | 52,489 |
| | Bank overdraft | 20 | (466,390) | (498,274) |
| | | | (452,643) | (445,785) |
| b. | **Reconciliation of (loss) after income tax expense to net cash provided by operating activities** | | | |
| | (Loss) after income tax | | (3,783,134) | (1,859,140) |
| | (Less)/add non-cash flows in (loss) from ordinary activities: | | | |
| | Depreciation | | 87,677 | 16,832 |
| | Provision for profit drawings in advance | | 671,516 | 1,080,757 |
| | Provision for slow moving stock | | 143,950 | - |
| | Option issue expense | | 52,533 | - |
| | Impairment of goodwill | | 2,317,956 | 1,100,000 |
| | Changes in assets and liabilities | | | |
| | Decrease/(increase) in trade and other receivables | | 123,526 | 171,170 |
| | Decrease/(increase) in prepayments and other current assets | | 388,055 | (24,054) |
| | (Increase)/decrease in inventories | | (276,531) | 16,919 |
| | (Decrease)/increase in income tax payable | | - | (34,986) |
| | Increase/(decrease) in trade and other payables | | 557,614 | (18,220) |
| | (Decrease) in employee entitlements | | (205) | 20,181 |
| | (Increase) in other non-current assets | | (370,260) | (703,319) |
| | | | (87,303) | (233,861) |

**Credit Standby Arrangements with Bank**

| | 2014 $ | 2013 $ |
|---|---|---|
| Credit facilities | 1,461,980 | 1,611,990 |
| Amounts utilised | (828,232) | (846,222) |
| Amounts unutilised | 633,748 | 765,768 |

The major facilities are summarised as follows:

Bank overdraft, trade refinance and asset finance:

These facilities are arranged with the NAB on general terms and conditions being set and agreed to annually. Interest rates are variable and subject to adjustment.

## NOTE 27: SHARE-BASED PAYMENTS

The following share-based payment arrangements existed at 30 June 2014:

On 30 November 2010, 70,000,000 share options were granted to directors and executives to accept ordinary shares at an exercise price of $0.04 on or before 30 November 2014.

On 30 November 2013, 30,000,000 share options expired.

On 4 March 2014, 10,000,000 share options forfeited.

All options granted to directors and executives are ordinary shares in Multi Channel Solutions Limited, which confer a right of one ordinary share for every option held.

A summary of the movement of all company options issued is as follows.

| | Consolidated Group | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| | Number of Options | Weighted Average Exercise Price $ | Number of Options | Weighted Average Exercise Price $ |
| Outstanding at the beginning of the year | 70,000,000 | 0.04 | 112,500,000 | 0.03 |
| (Forfeited) | (10,000,000) | 0.04 | (22,500,000) | 0.03 |
| (Expired) | (30,000,000) | 0.03 | (20,000,000) | 0.02 |
| Outstanding at year-end | 30,000,000 | 0.04 | 70,000,000 | 0.04 |
| Exercisable at year-end | 30,000,000 | 0.04 | 70,000,000 | 0.04 |

The weighted average remaining contractual life of options outstanding at year-end was 0.97 year. The exercise price of outstanding options at the end of the report period range is $0.04.

The weighted average fair value of options granted during the year was nil (2013: nil). The values used to calculate the fair value of options using the Black-Scholes option pricing model applying the following inputs:

| | |
|---|---|
| Weighted average exercise price: | $0.04 |
| Weighted average life of the option: | 2.09 years |
| Risk-free interest rate: | 2.5% |

## NOTE 28: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties:

a. **Directors and director related entities**

The names of each person holding the position of Director of Multi Channel Solutions Limited during the financial year are:

- Desmond Smale, Roger Smith, John White, Clay Moore

No loans were advanced to any of the Directors during the year.

Loans provided by related parties during the year:

- Desmond Smale $69,500.
- Roger Smith $15,000.
- John White $85,000.

**NOTE 28: RELATED PARTY TRANSACTIONS**

Loans repayment to related parties during the year:

- Desmond Smale $69,068

Remuneration received or receivable by the Directors of entities in the Company and aggregate amounts paid to superannuation plans in connection with the retirement of Directors and executive officers of entities in the Company are disclosed in the Remuneration Report in the Directors Report.

b. **Directors shareholdings**

At the year end, the Directors in office held a total of 481,006,566 fully paid ordinary shares and 30,000,000 options in the Company. Details of the directors' share and option holdings are disclosed in Note 5 to the Financial Statements.

c. **Other transactions with directors of the Company and their director-related entities**

(i) Loans and other transactions from Desmond Smale and Scanbeer Pty Ltd, a company controlled by Desmond Smale.

| | **Consolidated Group** | |
|---|---|---|
| | **2014** | **2013** |
| | **$** | **$** |
| Beginning of the year | 787,345 | 865,301 |
| Loans received | 69,500 | 20,000 |
| Loan repayments | (69,068) | (97,956) |
| End of the year | 787,777 | 787,345 |

(ii) Clay Moore has received profit drawings in advance from Home & Business Consumer Products LLC.

| | **Consolidated Group** | |
|---|---|---|
| | **2014** | **2013** |
| | **$** | **$** |
| Beginning of the year | 640,069 | 1,270,713 |
| Amounts advanced | 31,447 | 450,113 |
| Provision for profit drawings in advance | (671,516) | (1,080,757) |
| End of the year | - | 640,069 |

(iii) Loans from Roger Smith.

| | **Consolidated Group** | |
|---|---|---|
| | **2014** | **2013** |
| | **$** | **$** |
| Beginning of the year | - | - |
| Loans received | 15,000 | - |
| Loan repayments | - | - |
| End of the year | 15,000 | - |

## NOTE 28: RELATED PARTY TRANSACTIONS

(iv) Convertible notes and loans from John White and Sharon White.

| | Consolidated Group | |
|---|---|---|
| | 2014 | 2013 |
| | $ | $ |
| Beginning of the year | 1,705,152 | 1,610,000 |
| Loan received | 85,000 | 295,152 |
| Loan repayments | - | (200,000) |
| End of the year | 1,790,152 | 1,705,152 |

No other transactions have been entered into with director related entities during the year.

## NOTE 29: FINANCIAL RISK MANAGEMENT

a. **Financial Risk Management Policies**

The group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, loans to and from subsidiaries, convertible notes, loans from related parties & external parties and hire purchase agreements.

Financial Risks

The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk.

Interest Rate Risk – for further details on interest rate risk refer to Note 29(b).

Foreign Currency Risk – the group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency. The group manages this risk by monitoring the movements in the applicable foreign exchange rates in which it deals, primarily the AUD:USD exchange rate.

Liquidity Risk – Arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- Preparing forward-looking cash flow analysis in relation to its operational and financing activities;
- Monitoring undrawn credit facilities;
- Obtaining funding from a variety of sources;
- Maintaining a reputable credit profile;
- Managing credit risk related to financial assets;
- Comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

Convertible notes were issued during the year for the term of 12 months and 24 months and on expiry can be converted into ordinary shares or redeemed for their face value.

Other loans are issued for a term of 13 months and 24 months and are repaid on the loan maturity date. The interest rate applicable is 15% per annum and 11% per annum.

Credit Risk – The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

The economic entity does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the economic entity.

**NOTE 29: FINANCIAL RISK MANAGEMENT (CONTINUED)**

b. **Interest Rate Risk**

The company's exposure to interest rate risk, which is the risk that the financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below:

| Consolidated Group | Weighted Average Interest Rate | Floating Interest Rate $ | Non-interest bearing $ | Total $ |
|---|---|---|---|---|
| **2014** | | | | |
| Financial Assets | | | | |
| Cash | 2.50% | 13,747 | - | 13,747 |
| Receivables | - | - | 607,155 | 607,155 |
| | | 13,747 | 607,155 | 620,902 |
| Financial Liabilities | | | | |
| Bank Overdraft | 9.92% | 466,390 | - | 466,390 |
| Payables | - | - | 1,151,023 | 1,151,023 |
| Trade Finance Facility | 5.94% | 299,971 | - | 299,971 |
| Convertible Notes | 11.87% | 1,915,000 | - | 1,915,000 |
| Loan from Related Party | - | - | 802,777 | 802,777 |
| Other Loans | 12.30% | 445,152 | - | 445,152 |
| | | 3,126,513 | 1,953,800 | 5,080,313 |
| **2013** | | | | |
| Financial Assets | | | | |
| Cash | 2.75% | 52,489 | - | 52,489 |
| Receivables | - | - | 740,713 | 740,713 |
| | | 52,489 | 740,713 | 793,202 |
| Financial Liabilities | | | | |
| Bank Overdraft | 10.17% | 498,274 | - | 498,274 |
| Payables | - | - | 609,397 | 609,397 |
| Trade Finance Facility | 6.05% | 283,980 | - | 283,980 |
| Convertible Notes | 11.91% | 1,890,000 | - | 1,890,000 |
| Loan from Related Party | - | - | 787,345 | 787,345 |
| Other Loans | 12.30% | 445,152 | - | 445,152 |
| | | 3,117,406 | 1,396,742 | 4,514,148 |

**NOTE 29: FINANCIAL RISK MANAGEMENT (CONTINUED)**

c. **Net Fair Values**

The fair value of financial assets and liabilities reflect their carrying values.

*Foreign exchange risk*

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

The following table shows the foreign currency risk on the financial assets and liabilities of the Group's operations denominated in currencies other than the functional currency of the operations. The foreign currency risk in the books of the parent entity is considered immaterial and is therefore not shown.

| | **Net Financial Assets/(Liabilities) in USD** | |
|---|---|---|
| | **2014** | **2013** |
| Home and Business Consumer Products LLC | (9,961) | 558,995 |

*Sensitivity analysis*

The following table illustrates sensitivities to the Group's exposures to changes in interest rates and exchange rates. The table indicates the impact on how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variable that management considers to be reasonably possible.

| | **Consolidated Group** | | | |
|---|---|---|---|---|
| | **Profit** | **Profit** | **Equity** | **Equity** |
| | **in result of 0.5% Increase in Interest Rate** | **in result of 0.5% Decrease in Interest Rate** | **in result of 10% Increase in Exchange Rate** | **in result of 10% Decrease in Exchange Rate** |
| | **$** | **$** | **$** | **$** |
| **Year ended 30 June 2014** | (15,611) | 15,611 | (81,755) | 99,923 |
| **Year ended 30 June 2013** | (14,897) | 14,897 | (73,478) | 89,807 |

**NOTE 30: Events Subsequent to Balance Date**

As outlined in the Directors Report, now having worked with Triple R for a short period, Multi Channel has gained a better understanding of the market opportunity and is now looking to further develop this alliance. The directors consider that the Triple R alliance has the potential to deliver meaningful revenue and margin growth to the Company's business and efforts are being made to further enhance this alliance.

As announced to the market on 18th September 2014, the Company has engaged the services of Peloton Capital to advise on and assist in a broad Company review and restructure. The directors consider that a broad review and restructure of the Company is essential to enable the Company to be in a better position to capitalise on any success resulting from its renewed focus in Australia and the Triple R alliance. The review will also facilitate better incentives to all key partners involved in driving sales and to also address the debt, equity and cost structures of the Company so that we can better manage the next stage growth expectations.

The Company has also recently engaged the services of Mr. Hans Luttringer and Mr Ross Standfast who the board believes will be paramount to the group's growth strategy going forward.

The Company will announce the results of the review in due course.

**NOTE 31: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS**

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

– AASB 9*: Financial Instruments* and associated Amending Standards (applicable for annual reporting periods commencing on or after 1 January 2017).

  The Standard will be applicable retrospectively (subject to the comment on hedge accounting below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

  The key changes made to the Standard that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of AASB 9, the application of such accounting would be largely prospective.

  Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

– AASB 2012–3: *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* (applicable for annual reporting periods commencing on or after 1 January 2014).

  This Standard provides clarifying guidance relating to the offsetting of financial instruments, which is not expected to impact the Group's financial statements.

– Interpretation 21: *Levies* (applicable for annual reporting periods commencing on or after 1 January 2014).

  Interpretation 21 clarifies the circumstances under which a liability to pay a levy imposed by a government should be recognised, and whether that liability should be recognised in full at a specific date or progressively over a period of time. This Interpretation is not expected to significantly impact the Group's financial statements.

– AASB 2013–3: *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets* (applicable for annual reporting periods commencing on or after 1 January 2014).

  This Standard amends the disclosure requirements in AASB 136: *Impairment of Assets* pertaining to the use of fair value in impairment assessment and is not expected to significantly impact the Group's financial statements.

– AASB 2013–4: *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting* (applicable for annual reporting periods commencing on or after 1 January 2014).

  AASB 2013–4 makes amendments to AASB 139: *Financial Instruments: Recognition and Measurement* to permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. This Standard is not expected to significantly impact the Group's financial statements.

– AASB 2013–5: *Amendments to Australian Accounting Standards – Investment Entities* (applicable for annual reporting periods commencing on or after 1 January 2014).

  AASB 2013–5 amends AASB 10: *Consolidated Financial Statements* to define an "investment entity" and requires, with limited exceptions, that the subsidiaries of such entities be accounted for at fair value through profit or loss in accordance with AASB 9 and not be consolidated. Additional disclosures are also required. As neither the parent nor its subsidiaries meet the definition of an investment entity, this Standard is not expected to significantly impact the Group's financial statements.

**NOTE 32: COMPANY DETAILS**

The registered office of the company is:

Multi Channel Solutions Limited

Unit 1, 2 Turbo Road

Kings Park 2148

The principal places of business are:

— Bronson Marketing Pty Ltd
Unit 1, 2 Turbo Road
Kings Park 2148

— Home and Business Consumer Products LLC
21 Brook Street # 15
Seekonk MA 02771
USA

## DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 9 to 42, are in accordance with the *Corporations Act 2001* and:
   a. comply with Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
   b. give a true and fair view of the financial position as at 30 June 2014 and of the performance for the year ended on that date of the consolidated group;
2. the Chairman and Chief Financial Officer have each declared that:
   a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
   b. the financial statements and notes for the financial year comply with the Accounting Standards; and
   c. the financial statements and notes for the financial year give a true and fair view;
3. 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.

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

Director

Desmond Smale

Dated this 29th of September 2014

HALL CHADWICK

Chartered Accountants and Business Advisers

SYDNEY

Level 40
2 Park Street
Sydney NSW 2000
Australia

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Sydney NSW 2001

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## MULTI CHANNEL SOLUTIONS LIMITED
## ABN 60 006 569 124
## AND CONTROLLED ENTITIES
## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MULTI CHANNEL SOLUTIONS LIMITED

### Report on the Financial Report

We have audited the accompanying financial report of Multi Channel Solutions Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards (IFRS).

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

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

### Independence

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

HALL CHADWICK

**MULTI CHANNEL SOLUTIONS LIMITED**
**ABN 60 006 569 124**
**AND CONTROLLED ENTITIES**
**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF**
**MULTI CHANNEL SOLUTIONS LIMITED**

**Auditor's Opinion**

In our opinion:

a) the financial report of Multi Channel Solutions Limited is in accordance with the Corporations Act 2001, including:

   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 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 financial report also complies with International Reporting Standards as disclosed in Note 1.

**Emphasis of Matter**

Without modifying our opinion we draw attention to Note 1a to the financial report which indicates that the consolidated entity incurred a net loss of $3,783,134 during the year ended 30 June 2014 and as of that date the consolidated entity's total liabilities exceeded its total assets by $3,665,802. This condition, along with other matters set forth in Note 1a, indicates the existence of a material uncertainty which may cast doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realize its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 5 to 6 of the directors' report for the year ended 30 June 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.

**Auditor's Opinion**

In our opinion, the Remuneration Report of Multi Channel Solutions Limited for the year ended 30 June 2014 complies with section 300A of the Corporations Act 2001.

Hall Chadwick

Hall Chadwick
Level 40, 2 Park Street
Sydney, NSW 2000

**DREW TOWNSEND**
Partner
Date: 29 September 2014

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following additional information is required by the Australian Stock Exchange Ltd in respect of listed public companies only.

1. **Shareholding**

a. **Distribution of Shareholders**

| Category (size of holding) | Number Ordinary | Number Redeemable |
|---|---|---|
| 1 – 1,000 | 50 | - |
| 1,001 – 5,000 | 56 | - |
| 5,001 – 10,000 | 85 | - |
| 10,001 – 100,000 | 254 | - |
| 100,001 – and over | 264 | - |
| | 709 | - |

b. The number of shareholdings held in less than marketable parcels is 486.

c. The names of the substantial shareholders listed in the holding company's register as at 30 June 2014 are:

| Shareholder | Number Ordinary | Number Preference |
|---|---|---|
| Desmond Smale | 236,144,747 | - |
| Scanbeer Pty Ltd | 186,144,747 | - |

d. **Voting Rights**

The voting rights attached to each class of equity security are as follows:

Ordinary shares

— Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

e. **20 Largest Shareholders — Ordinary Shares**

| | Name | Number of Ordinary Fully Paid Shares Held | % Held of Issued Ordinary Capital |
|---|---|---|---|
| 1. | MR DESMOND GREGORY SMALE | 236,144,747 | 26.95 |
| 2. | SCANBEER PTY LIMITED | 186,144,747 | 21.25 |
| 3. | SCANBEER PTY LIMITED <SMALE FAMILY SUPER FUND A/C> | 50,000,000 | 5.71 |
| 4. | TRIPLE R INTERNATIONAL CO LTD | 50,000,000 | 5.71 |
| 5. | CARDRONA ENERGY PTY LIMITED | 20,833,333 | 2.38 |
| 6. | MR JASON RYAN + MR ALEX RYAN <RYAN FAMILY SMSF A/C> | 17,414,577 | 1.99 |
| 7. | NOHUNI PTY LTD <SUPER FUND A/C> | 16,600,000 | 1.89 |
| 8. | MR TREVOR NEIL HAY | 14,455,926 | 1.65 |

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

e. **20 Largest Shareholders — Ordinary Shares**

| | Name | Number of Ordinary Fully Paid Shares Held | % Held of Issued Ordinary Capital |
|---|---|---|---|
| 9. | COLEPIN PTY LTD <BARRETT&SONS TRAD CO S/F AC> | 13,400,000 | 1.53 |
| 10. | MR SAMUEL RUDZYN + MRS ROBYN RUDZYN <S & R RUDZYN SUPER FUND A/C> | 13,108,047 | 1.50 |
| 11. | MR STEPHEN CLARKE JONES | 9,500,000 | 1.08 |
| 12. | MRS YVONNE DESAUNETTES | 7,408,500 | 0.85 |
| 13. | MR GARY SNOW | 6,450,000 | 0.74 |
| 14. | MOSSCO CAPITAL INC | 6,363,637 | 0.73 |
| 15. | MR MAX GLATTER + MRS PAMELA GLATTER | 6,101,513 | 0.70 |
| 16. | MR GLEN WILLIAM MCDONALD | 6,000,000 | 0.68 |
| 17. | MR ROBERT MELVILLE PEDERSEN + MRS ANN LARAINE PEDERSEN <MACKPEDO SUPER FUND A/C> | 5,743,998 | 0.66 |
| 18. | HALITH PTY LTD | 5,587,663 | 0.64 |
| 19. | CITICORP NOMINEES PTY LIMITED | 5,060,474 | 0.58 |
| 20. | MRS KELLI SIMONE HUGO | 4,700,000 | 0.54 |
| | | 681,017,162 | 77.73 |

2. The name of the company secretary is Roger Smith.

3. The address of the principal registered office in Australia is Unit 1, 2 Turbo Road, Kings Park, NSW 2148. Telephone (02) 9672 8777.

4. Registers of securities are held at the following addresses

Victoria — Computershare Investor Services Pty Ltd
Yarra Falls
452, Johnston Street
Abbotsford, VIC 3067

5. **Stock Exchange Listing**

Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Securities Exchange Limited.

6. **Unquoted Securities**

Options over Unissued Shares

A total of 30,000,000 options are on issue to Desmond Smale, Roger Smith, Clay Moore.

## CORPORATE GOVERNANCE STATEMENT

**30 JUNE 2014**

Unless disclosed below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 30 June 2014.

**Board Composition**

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the directors' report.

The names of independent directors of the company are:

Roger Smith and John White

When determining whether a non-executive director is independent the director must not fail any of the following materiality thresholds:

— less than 10% of company shares are held by the director and any entity or individual directly or indirectly associated with the director;

— no sales are made to or purchases made from any entity or individual directly or indirectly associated with the director; and

— none of the directors' income or the income of an individual or entity directly or indirectly associated with the director is derived from a contract with any member of the economic entity other than income derived as a director of the entity.

Independent directors have the right to seek independent professional advice in the furtherance of their duties as directors at the company's expense. Written approval must be obtained from the chair prior to incurring any expense on behalf of the company.

**Ethical Standards**

The Board acknowledges and emphasises the importance of all directors and employees maintaining the highest standards of corporate governance practice and ethical conduct.

A code of conduct has been established requiring directors and employees to:

- act honestly and in good faith;
- exercise due care and diligence in fulfilling the functions of office;
- avoid conflicts and make full disclosure of any possible conflict of interest;
- comply with the law;
- encourage the reporting and investigating of unlawful and unethical behaviour; and
- comply with the share trading policy outlined in the Code of Conduct.

Directors are obliged to be independent in judgment and ensure all reasonable steps are taken to ensure due care is taken by the Board in making sound decisions.

**Trading Policy**

The company's policy regarding directors and employees trading in its securities is set by the board of directors. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the security's prices.

**Audit Committee**

The Board has not established an Audit committee at this point in the Company's development. It is considered that the size of the Board along with the level of activity of the Company renders this impractical and the full Board considers in detail all of the matters for which the directors are responsible. Although there is no Audit Committee, formal meetings are held between nominated directors and the external auditor, to discuss the findings of the half year review and the year end audit.

## CORPORATE GOVERNANCE STATEMENT

**Performance Evaluation**

Given the current size of the Multi Channel Solutions Ltd Board and level of activity of the Company, the Board does not currently have a formal process for the evaluation of individual Directors and would consider the implementation of one at this particular point as impractical. The Directors do consider, on an ongoing basis, the overall performance of the Board in context of the Company meeting and exceeding its stated objectives and the trading price of its shares on the ASX.

**Board Roles and Responsibilities**

The Board is first and foremost accountable to provide value to its shareholders through delivery of timely and balanced disclosures.

The Board is ultimately responsible for ensuring its actions are in accordance with key corporate governance principles.

**Shareholder Rights**

Shareholders are entitled to vote on significant matters impacting on the business, which include the election and remuneration of directors, changes to the constitution and receipt of annual and interim financial statements. Shareholders are strongly encouraged to attend and participate in the Annual General Meetings of Multi Channel Solutions Limited, to lodge questions to be responded by the Board and/or the CEO, and are able to appoint proxies.

**Risk Management**

The Board considers identification and management of key risks associated with the business as vital to maximise shareholder wealth. A yearly assessment of the business's risk profile is undertaken and reviewed by the Board, covering all aspects of the business from the operational level through to strategic level risks. The CEO has been delegated the task of implementing internal controls to identify and manage risks for which the Board provides oversight. The effectiveness of these controls is monitored and reviewed regularly. The worsening economic environment has emphasised the importance of managing and reassessing its key business risks.

**Remuneration Policies**

The Board has not established a Remuneration committee at this point in the Company's development. It is considered that the size of the Board along with the level of activity of the Company renders this impractical and the full Board considers in detail all of the matters for which the directors are responsible. Remuneration to the Executive Directors is by way of salary only, with the level of salary, having been set by the Board to an amount it considers to be commensurate for a company of Multi Channel Solutions Ltd size and level of activity.  There is currently no link between performance and remuneration. Further there are no schemes for retirement benefits in existence.