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2020

# Annual Report



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# Our Story

Since 1996, Funtastic has been a much-loved part of Australian families. You may have a Razor scooter waiting in the garage, a Chill Factor slushy maker in the freezer, a Moochies smart watch on your child's wrist to keep them safe or a Pillow Pet on the bed – Funtastic is there as part of your family life. We always strive to find new and innovative ways to help you bring fun to life.

## Bringing fun to life!



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# Chair's Report

*"It has been a year of change for the Company."*



On behalf of the Board of Directors of Funtastic Limited (**Funtastic, FUN** or the **Company**), I am pleased to present our 2020 Annual Report.

It has been a year of change for the Company. As outlined at last year's Annual General Meeting, the Board and management identified three key strategic initiatives to drive the turnaround of the business and the year has been focused on executing these initiatives.

Firstly, we rationalised the product portfolio which included the exit of unprofitable product categories and streamlined the business to focus on product ranges offering growth potential. These included Funtastic own branded products such as Chill Factor, confectionery including our own X-treme range of products and the Razor range of outdoor scooters. As a result of this range review, the Company announced a restructuring of the business that is now largely complete and has delivered significant reductions in the fixed cost base of the business. Further cost reduction activity has included the implementation of a new ERP system delivering process improvement, increased efficiency and additional significant costs savings. Further cost reduction initiatives are ongoing in the drive to return the business to profitability.

The second strategic initiative was to introduce new product ranges, again

with strong growth potential, within Funtastic's core market of families with kids. During the year Funtastic successfully launched the Moochies range of smart watches for kids. Moochies provides a child's first mobile phone while giving parents peace of mind and confidence in their child's security. In addition to the traditional sale and distribution of product through retail channels, Moochies provides the Company with a recurring revenue stream. Other new product ranges successfully introduced during the year include the Learning Resources range of kid's educational products and a children's range of arts and crafts products.

The final strategic initiative was to seek new businesses that met strict criteria in emerging growth sectors around families with kids. As recently announced, Funtastic expects to complete the acquisition of the Hobby Warehouse Group that houses the Australia and New Zealand e-commerce websites Toys"R"Us, Babies"R"Us and Hobby Warehouse. Under the terms of the agreement and subject to all required approvals, the acquisition is expected to be completed following the Annual General Meeting to be held on 23 November 2020. The Company's wholesale division will be expanded and strengthened to include a wider range of family oriented lifestyle products to complement its present brands and the Toys"R"Us, Babies"R"Us and Hobby Warehouse brands will be incorporated into Funtastic's existing online retail division. This exciting acquisition is a

significant step forward in the turnaround of the business and a strong foundation that will return the Company to profitability and is expected to deliver increasing shareholder value in the coming years.

On behalf of the Board I would like to take the opportunity to thank our loyal shareholders who have stood steadfastly behind the Company during the past financial year and especially JASZAC Investments Pty Ltd whose loan facility enabled the Company to successfully deliver our strategic initiatives and who have played an invaluable role in the acquisition of the Hobby Warehouse Group. We would also like to express our sincere thanks to our valued customers, business partners, suppliers and advisors for their continued support. We especially thank the management team and entire staff of Funtastic for their undivided commitment, dedication and loyalty and notably David Jackson who successfully steered the Company through a period of significant change and transformation, leaving the business in a far stronger position than when he joined us. We look forward to your continued support and contribution as we work together to improve the Company's performance, driving shareholder return.

**Bernie Brookes AM**

*Chair of the Board*

29 October 2020

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# Corporate Directory

## Directors

Bernie Brookes AM  
*Chair and Independent Non-Executive Director*  
(appointed 1 August 2019)

John Tripodi  
*Independent Non-Executive Director*  
(appointed 25 October 2018)

Nicki Anderson  
*Independent Non-Executive Director*  
(appointed 25 October 2018)

## Company Secretary

Howard Abbey

## Registered Office and Principle Place of Business

Level 2, 315 Ferntree Gully Road  
Mount Waverley VIC 3149

## Share Registry

### Automic Group

Level 5, 126 Phillip Street  
Sydney NSW 2000

## Auditors

### Grant Thornton

Collins Square, Tower 5, 727 Collins Street  
Docklands VIC 3008

## Bankers

### Commonwealth Bank of Australia

201 Sussex Street  
Sydney NSW 2000

## Solicitors

### K&L Gates

Level 25, South Tower, 525 Collins Street  
Melbourne VIC 3000

## Stock Exchange Listing

Funtastic Limited shares are listed on the Australian Securities Exchange (ASX code: FUN)

## Website

[www.funtastic.com.au](http://www.funtastic.com.au)

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# Corporate Governance Statement

The Corporate Governance principles that guide the operation of Funtastic Limited ACN 063 886 199 (**Funtastic, FUN or Company**) are detailed in this statement. Funtastic respects and endorses the ASX Corporate Governance Council's Principles and Recommendations. The Board believes that it has been compliant with the spirit of the ASX Corporate Governance Council's principles and recommendations throughout the 2020 financial year.

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

This Corporate Governance Statement is current as at the date of this report and has been approved by the Board. The Company's corporate governance policies, charters and policies are all available on the corporate governance section of the Company's website at <https://corporate.funtastic.com.au/investors/corporate-governance/>

## Principle I: Lay solid foundations for management and oversight Role and Responsibility of the Board

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

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

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

Board members have complete and open access to management.

The Company has a written agreement with each director and senior executive setting out the terms of their appointment and has an annual process for periodically evaluating the performance of its senior executives.

The Company Secretary provides advice and support to the Board and is responsible for the Company's day to day governance framework. The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.

The Chair, on behalf of the Board, undertakes a review of the Chief Executive Officer's performance at least on an annual basis. Objectives are set and aligned to the overall business goals and the Company's requirement of the position. An evaluation of the Chief Executive Officer's performance was undertaken during the year.

The performance of senior management is evaluated by the Chief Executive Officer through formal performance reviews undertaken on an annual basis. The individual performance of each Senior Executive is reviewed against goals set in the previous year and new objectives are established for the following financial year.

## Diversity

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

## Corporate Governance Statement continued

Funtastic has established a Diversity Policy which is published on the Company's website. As at 31 July 2020 the Group's mix of employees was as follows:

|                   | Female    | Male      | Total     |
|-------------------|-----------|-----------|-----------|
| General employees | 10        | 4         | 14        |
| Middle managers   | 2         | 5         | 7         |
| Senior managers   | 0         | 3         | 3         |
| Board             | 1         | 2         | 3         |
| <b>Total</b>      | <b>13</b> | <b>14</b> | <b>27</b> |

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

### Director competencies

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

New directors are provided with a letter of appointment setting out the Company's expectations, their responsibilities, rights and the terms and conditions of their appointment. All new directors participate in an induction program which covers the operation of the Board and its committees and financial, strategic, operations and risk management issues. The Board provides appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.

## Principle 2: Structure the Board to add value

### Remuneration & Nomination Committee

The current members of the Remuneration & Nomination Committee are Mr Bernie Brookes, Mr John Tripodi and Ms Nicki Anderson. The chair of the Committee is Ms Nicki Anderson, a non-executive independent director.

The charter of the Remuneration & Nomination Committee is set out on the Company's website.

The Remuneration & Nomination Committee has oversight of Board succession planning. It is also responsible for identifying suitable candidates to fill Board vacancies as and when they arise, or to identify candidates to complement the existing Board, and to make recommendations to the Board on their appointment. Where appropriate, external consultants are engaged to assist in searching for candidates.

Key focus areas of the Remuneration Committee during the financial year included:

- ensuring that there was a robust and effective process for evaluating the performance of the Board, its committees and individual non-executive directors. In relation to the re-appointment of a non-executive director, the Committee reviewed the performance of the relevant non-executive director during their term of office and made recommendations to the Board.

The committee seeks advice and guidance, as appropriate, from external experts. The Board undertakes appropriate checks before appointing a person or putting forward to shareholders a candidate for election as a director. Additionally, the Board provides shareholders with all material information in its possession relevant to a decision on whether to elect or re-elect a director or not.

The Board undertakes appropriate checks in relation to the character, experience, education, criminal record and bankruptcy history for each of these candidates. A candidate standing for election as a non-executive Director will be asked to provide the Board, or the Remuneration & Nomination Committee, with the following information, which will be provided to shareholders to enable them to make an informed decision as to whether to elect or re-elect the candidate at the next annual general meeting:

- biographical details, including the relevant qualifications and experience and the skills the candidate can bring to the Board;
- details of any other material Directorships currently held by the candidate;



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- in the case of a candidate standing for election as a Director for the first time:
    - any material adverse information revealed by the checks the Company has performed about the Director;
    - details of any interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect, their independent judgement;
    - if the Board considers that the candidate will, if elected, qualify as an independent Director, a statement to that effect;
  - in the case of a candidate standing for re-election as a Director:
    - the term of office currently served by the Director; and
    - if the Board considers the Director to be an independent Director, a statement to that effect; and
    - a statement by the Board as to whether it supports the election or re-election of the candidate.

In determining whether it will support the election or re-election of a Director, the Board will assess the above information and, in the case of Directors standing for re-election, the performance of each Director.

## Board Membership

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

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

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

At the commencement of the financial year, the Board comprised of three independent non-executive directors. The details of each director's qualifications, experience and skills are set out on within the Director's report within the Annual Report.

## Board Matrix

The Committee has identified particular qualifications, attributes, skills and experience ("Skills") that it believes important to be represented on the Board as a whole, in light of the Company's current and expected future business needs. Each year, on behalf of the Board, the Remuneration & Nomination Committee reviews these skills to ensure that they are still relevant and appropriate in enabling the Board to provide constructive challenge to the Company's strategy, evaluate company performance, execute the required governance functions and assess capital markets risks and opportunities. Each year, the Committee also reviews the capabilities of each current Director against these Skills.

The Board is satisfied that it has sufficient skills and experience in place in all critical areas. The skills identified ensure that key components of the Company's strategy can be supported by the Board. They include:

- high standards of governance, legal & regulatory compliance and financial management;
- expanding the Company's business both organically and through acquisition;
- continuing to expand and deepen the range of products including growing own brands; and
- providing an innovative and integrated offer to customers and clients.

## Corporate Governance Statement continued

### Board and Director Independence

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

Currently, all three directors are considered to be independent. It is the Board's view that Mr Bernie Brookes, Mr John Tripodi and Ms Nicki Anderson are independent directors. Accordingly, a majority of the board are independent directors.

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

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

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

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

The tenure of service and qualifications for each director is as follows:

| Director       | Term in Office                                     | Qualifications      |
|----------------|--|---------------------|
| Bernie Brookes | Independent Director and Chair since 1 August 2019 | BA, Dip Ed          |
| John Tripodi   | Independent Director since 25 October 2018         | B Com, B Bus (Hons) |
| Nicki Anderson | Independent Director since 25 October 2018         | EMBA, B Bus, GAICD  |

The Board provides appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.

### Work of Directors

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

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

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

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

### Conflict of Interest

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

## Independent Professional Advice

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

## Principle 3: Act ethically and responsibly

### Ethical Standards

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

### Ethical Compliance

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

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

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

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

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

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

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

## Principle 4: Safeguard integrity in corporate reporting

### Audit & Risk Committee

Funtastic has noted the ASX Corporate Governance Council's best practice recommendation that listed companies have an independent director as Chair of the Audit & Risk Committee. This Committee is comprised of three non-executive directors: Mr Bernie Brookes, Ms Nicki Anderson and Mr John Tripodi. The Chair of this Committee is non-executive independent director Mr John Tripodi.

The charter of the Audit & Risk Committee is set out on the Company's website.

The members of the Committee are each well credentialed with relevant qualifications and experience to enhance the Committee's purpose and fulfil its objectives.

## Corporate Governance Statement continued

### Charter and Responsibilities

The Committee's key responsibilities and functions are to:

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

### Meetings

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

The Audit & Risk Committee meet at least twice per year and more frequently if required. The External Auditor attends the Audit & Risk Committee meetings when requested by the Audit & Risk Committee Chair.

### Reporting by the Audit & Risk Committee

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

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

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

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



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- overseeing the establishment and maintenance of processes to ensure that there is:
    - an adequate system of internal control, management of business risks and safeguard of assets; and
    - a review of internal control systems and the operational effectiveness of the policies and procedures related to risk and control.
  - evaluating exposure to fraud and monitoring investigations of allegations of fraud or malfeasance;
  - reviewing corporate governance practices for completeness and accuracy;
  - determining the adequacy and effectiveness of legal compliance systems; and
  - providing recommendations as to the reporting of and propriety of related party transactions.

### Management Certification

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

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

The key steps in the certification process are as follows:

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

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

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

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

## Principle 5 Make timely and balanced disclosure

### Communication and disclosure

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

The Company Secretary is accountable to the Board, through the Chair, on compliance and governance matters.

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

A copy of Funtastic's Continuous Disclosure Policy and Communication Policy are set out on the Company's website.

## Corporate Governance Statement continued

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

The Company maintains a corporate website which provides information freely and readily to current and potential security holders. Funtastic has actively designed and implemented an investor relations program to facilitate effective two-way communication with investors. A copy of Funtastic's Communication Policy is set out on the Company's website.

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

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

### Principle 7: Recognise and manage risk

#### Recognising and managing risk

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

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

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

- determine the adequacy and effectiveness of the management reporting and systems used to monitor adherence to policies and guidelines and limits approved by the Board for management of financial risks;
- determine the adequacy and effectiveness of financial and operational risk management systems by reviewing risk registers and reports from management and external auditors;

The Board reviews the Company's risk management framework at least annually to satisfy itself that it continues to be sound and discloses in relation to each reporting period that such a review has taken place. An internal evaluation of the Company's risk management framework was undertaken during the year.

#### Internal Audit Function

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

#### Economic, Environmental and Social Sustainability risk

The Company is not subject to any particular or significant single economic, environmental and social sustainability risk. The Company is subject to a range of general economic risks, including macro-economic risks, government policy, general business conditions, changes in technology and many other factors.

### Principle 8: Remunerate fairly and responsibly

#### Remuneration & Nomination Committee

The current members of the Remuneration & Nomination Committee are Mr Bernie Brookes, Mr John Tripodi and Ms Nicki Anderson. The chair of the Committee is Ms Nicki Anderson, a non-executive independent director.

The charter of the Remuneration & Nomination Committee is set out on the Company's website.

Full details of the remuneration paid to non-executive and key management personnel are set out in the remuneration report within the Director's report of this annual report. Annual performance reviews of each member of the Leadership Team, including the CEO, for the financial year have been undertaken.

Key focus areas of the Remuneration Committee during the financial year included reviewing and making recommendations to the Board in relation to the fixed and variable remuneration of the CEO and the executive team.

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

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

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

## Remuneration & Nomination Committee Charter and Responsibilities

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

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

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

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

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

## Remuneration Policy

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

## Remuneration Disclosure

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

# Directors' Report

Your Directors present their Annual Report on the consolidated entity consisting of Funtastic Limited (**Funtastic, FUN or Company**) and its controlled entities at the end of, or during, the year ended 31 July 2020.

## Directors

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



**Bernie Brookes AM**

*BA, Dip Ed*

Chair & Independent  
Non-Executive Director

(appointed 1 August 2019)

An experienced Board member and Chair of large and challenging companies in Private Equity, International corporates and small startups, Bernie's experience includes leading a multi-divisional organisation during significant periods of change and re-engineering. Having worked domestically, in three states, across all major divisions of Woolworths, he has substantial experience in Retail and Wholesale Operations, Buying, Information Technology Systems, Supply Chain and Human Resource management in a fast moving and dynamic environment. He led Myer during the Private Equity carve out from Coles Myer to a listing on the ASX. Bernie also has significant international experience, running the largest non-food retailer in sub-Sahara Africa.

Bernie's strengths include expertise in business management, displaying energy and self-confidence with the ability to find solutions to complex situations through analytical, conceptual and entrepreneurial skills. Ultimately, he is motivated by results.

Bernie is on the Advisory Board of the World Retail Congress as Australia's representative and is on the Grand Jury for the World Retail Awards. Bernie is also the Chairman of Dotz Nano, CEO Institute NSW and Renuon Renewable. He was awarded an Order of Australia for his efforts in retail and Philanthropy and for over 30 years has been the Patron of Australia's largest retail industry award.



**John Tripodi**

*B Com, B Bus (Hons)*

Independent  
Non-Executive Director

Chair Audit & Risk Committee

John is a business leader with extensive multinational FMCG experience in various strategic and operational roles with a track record of championing innovative brand strategies that deliver successful commercial outcomes.

John is currently the CEO of the diversified sport, entertainment and consumer lifestyle agency, Twenty3 Group. Prior to co-founding the Twenty3 Group, John held senior sales and marketing roles with Mars Inc. before moving into general management with the L'Oreal Group.

John is a graduate of the University of Melbourne in Commerce and holds an honours degree in Marketing from Monash University. John is also an Adjunct Professor of Business at RMIT University.



**Nicki Anderson**

*B Bus, EMBA, GAICD*

Independent  
Non-Executive Director

Chair Remuneration  
& Nomination Committee

Nicki is an accomplished Board member and Remuneration & Nomination Chair in ASX and Private Family businesses. Nicki's experience includes leading a multi-divisional organisation for private equity during significant transformation. She has deep experience in strategy, sales, marketing, retailing, licensing and innovation within branded food, beverage and consumer goods businesses both in Australia and internationally.

Nicki has held senior positions in marketing, research & development and innovation within world class FMCG companies and was most recently Managing Director within the Blueprint Group concentrating on sales, marketing and merchandising within the retail, e-commerce and pharmacy sales channels.

Nicki is a current Non-Executive director of the Australian Made Campaign Limited, Prostate Cancer Foundation of Australia, Mrs Mac's Pty Ltd and Select Harvests. She is a member and former Chair of the Monash University Advisory Board (Marketing). Nicki has an Executive MBA from AGSM, a Bachelor of Business and is a graduate of the Australian Institute of Company Directors.

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## Directorships of other listed companies

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

| Director       | Company                 | Period          |
|----------------|-------------------------|-----------------|
| Bernie Brookes | Dotz Nano               | 2019 to current |
| Nicki Anderson | Select Harvests Limited | 2016 to current |

## Chief Executive Officer

Mr David Jackson was appointed to the position of Chief Executive Officer on 2 May 2019 and resigned effective 4 September 2020. Mr Howard Abbey was appointed Acting Chief Executive Officer effective 4 September 2020.

## Company Secretary

Mr Howard Abbey was appointed to the position of Company Secretary on 31 May 2018.

## Principal activities

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

## Dividends

In respect of the financial year ended 31 July 2020, no dividends have been declared or paid.

## Review of results

### Financial results

| Key Financials AUD 'm                        | FY20    | FY19 <sup>3</sup> | % Change |
|--|---------|-------------------|----------|
| Revenue                                      | 24.6    | 30.0              | (17.9%)  |
| EBITDA                                       | (7.7)   | 8.7               | (188.9%) |
| Profit/(Loss) before Tax                     | (9.2)   | 7.6               | (221.1%) |
| Net profit/(loss) after tax                  | (9.2)   | 7.5               | (222.6%) |
| Basic EPS (cents) from continuing operations | (3.9)   | 3.6               | (209.2%) |
| Dividend per share (cents)                   | N/A     | N/A               |          |
| ROE <sup>1</sup>                             | (4.13%) | 3.40%             | (7.5%)   |
| Net Debt (\$m)                               | 8.5     | 4.9               | 75.4%    |
| Gearing <sup>2</sup>                         | (0.99)  | (15.21)           | (93.5%)  |

1. NPAT/average shareholder equity.
2. Net debt/shareholder equity.
3. FY19 results include a one-off gain of \$15.7m related to debt write off.

The Group's statutory loss after income tax for the year ended 31 July 2020 was \$9.2 million (2019: profit after income tax of \$7.5 million). During the year the Group realised debt forgiveness net of costs of \$nil (2019: \$15.7 million which positively impacted the profit after income tax).

## Directors' Report continued

The Group's operating EBITDA for the year ended 31 July 2020 was \$(3.3) million (2019: restated underlying EBITDA \$(4.2) million). A reconciliation of operating EBITDA to statutory EBITDA is shown below.

| <b>Reconciliation of Statutory EBITDA to Operating EBITDA</b>        | <b>FY20</b>    | <b>FY19</b>    |
|--|----------------|----------------|
|  | <b>\$'000</b>  | <b>\$'000</b>  |
| Statutory EBITDA of continuing operations                            | <b>(7,733)</b> | 8,704          |
| Bank Debt Forgiveness net of costs                                   | –              | (15,710)       |
| Disposal/Impairment of intangible assets                             | <b>94</b>      | 702            |
| Redundancy and restructuring costs                                   | <b>444</b>     | –              |
| Write-down of inventory related to exit of toy distribution division | <b>1,925</b>   | –              |
| Provision for license guarantee commitments                          | <b>111</b>     | 2,364          |
| Non-recurring significant legal costs                                | <b>814</b>     | 283            |
| Provision for inventory to be returned to supplier                   | –              | 493            |
| Provision for disputed liabilities                                   | <b>209</b>     | –              |
| Provision for shut down of discontinued operations                   | <b>220</b>     | –              |
| Unrealised FX losses/(gains)   | <b>925</b>     | (1,029)        |
| Government subsidies related to COVID-19                             | <b>(300)</b>   | –              |
| <b>Operating EBITDA</b>  | <b>(3,291)</b> | <b>(4,193)</b> |

## Operating review

Highlights for the year ended 31 July 2020 include:

- Restructured product categories:
  - Exit of unprofitable product ranges
  - Focus on product ranges offering margin and growth potential
  - Introduction of new, high potential, product category with reoccurring revenue stream
- Right sizing of the business:
  - Headcount reduction aligned with refreshed product categories
  - Implementation of a new ERP system to reduce costs and improve process efficiency
  - Relentless focus on cost containment and efficiency improvements
- Continued expansion of retail footprint into specialty channels:
  - Reduced concentration in DDS
  - Growth of independent channels
  - Revenue growth via direct to consumer online channels

The Board's key strategic initiatives to improve performance include:

- Driving organic growth through the refreshed product portfolio:
  - Grow confectionery and treats business through range extensions
  - Focus Razor toward the growing kids electric scooter market
  - Continued expansion into the fast-growing kids' wearable tech product sector
  - Expand presence in learning and educational (STEM) products
  - Continue to grow international distribution of lifestyle products
  - Capitalise on the growing direct to consumer ecommerce channel

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- Introducing new products:
    - Secure distribution of high margin products complementary to existing portfolios
  - Seeking to own wanted brands or popular franchises in the emerging growth sectors of Families with Kids
    - Learning in a fun, engaging and educational way
    - Keeping fit and staying healthy
    - Staying safe
  - Seek strategic opportunities for acquisition or merger that will deliver inorganic profit growth

## COVID-19 impact

The Group initiated several cost management strategies in the early stages of the COVID-19 pandemic including a reduction in Board salaries and fees, a reduction in employees hours, a cessation of travel as well as rent reductions negotiated with the landlord. The Group qualified and received \$300,000 in government assistance to ensure that eligible staff received JobKeeper support.

## The year ahead

The Group will continue to pursue strategies aimed at improving profitability and growth with a goal of returning the business to profitability in FY21.

## Changes in state of affairs

Other than matters mentioned in this report, no other significant changes in state of affairs of the Group occurred during the year ended 31 July 2020.

## Subsequent events

### Planned acquisition

On 23 October 2020, the Group announced the acquisition of 100% of the Hobby Warehouse Group (HWG), the operator of the Australian retail websites Toys“R”Us, Babies“R”Us and Hobby Warehouse. Under the terms of the Acquisition, the Group will acquire HWG for total consideration of \$32.6 million, which will be satisfied by the issue of 291 million shares at \$0.112 to the vendors of HWG (Vendor Shares). Of the Vendor Shares, 141 million shares will be escrowed for 12 months and a further 141 million will be escrowed for 24 months from the completion of the acquisition. The acquisition is also conditional on the following:

- a \$29 million equity raising (Equity Raising) to fund the businesses, which is subject to shareholder approval;
- Jaszac Investments converting \$6m of the debt owed to it by the Company into equity at the same price as the Equity Raising;
- shareholder approval of the acquisition and the issue of the Vendor Shares; and
- various other conditions under the terms of the acquisition.

The Equity Raising is a fully underwritten conditional placement comprising of the issue of up to 258.9 million new fully paid ordinary shares in the Group. Both the Placement and Debt Conversion will be subject to shareholder approval, which is to be sought at the annual general meeting to be held on 23 November 2020. New Shares issued will rank equally with existing ordinary shares on issue.

## COVID-19

Subsequent to balance date, Victoria has experienced a second wave of the COVID-19 pandemic. The impact of the COVID-19 pandemic is ongoing and it is not practicable to estimate the impact after the reporting date. The situation continues to develop and the impact will be dependent on measures imposed by both Australian and foreign governments such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

## Directors' Report continued

**Environmental regulations**

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

**Meetings of Directors**

The number of meetings of the Company's directors held during the year ended 31 July 2020 and the number of meetings attended by each director were:

|            | Remuneration & Nomination Committee |   | Board of Directors |    | Audit & Risk Committee |   |
|------------|-------------------------------------|---|--------------------|----|------------------------|---|
|            | A                                   | B | A                  | B  | A                      | B |
| B Brookes  | 2                                   | 2 | 15                 | 15 | 2                      | 2 |
| N Anderson | 2                                   | 2 | 15                 | 15 | 2                      | 2 |
| J Tripodi  | 2                                   | 2 | 15                 | 15 | 2                      | 2 |

**Note:**

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

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

**Directors' shareholdings**

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

| Director   | Issuing entity    | Ordinary Shares | Share Rights |
|------------|-------------------|-----------------|--------------|
| J Tripodi  | Funtastic Limited | –               | –            |
| N Anderson | Funtastic Limited | 1,075,467       | –            |
| B Brookes  | Funtastic Limited | 900,000         | –            |

**Option and right holdings**

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

The Board has discretion to waive any vesting conditions or other restrictions to the Employee Incentive Plan (EIP) in accordance with the Employee Incentive Plan rules provided such amendments do not widely prejudice the rights of existing participants.



## Remuneration Report (Audited)

The Directors are pleased to present the 2020 remuneration report, prepared in accordance with section 300A of the *Corporations Act 2001*, for the period ended 31 July 2020. The information provided in the Remuneration report has been audited by the company auditors as required by section 308(3C) of the *Corporations Act 2001*. The Remuneration report forms a part of the Directors report.

The Remuneration report outlines the remuneration policies and arrangements for the Company's Key Management Personnel (KMP) who have authority and responsibility for planning, directing and controlling the activities of the Company.

### Details of key management personnel

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

| Name           | Position                                     | Period in position during the year                |
|----------------|--|---|
| Bernie Brookes | Chair and Independent Non-Executive Director | Appointed 1 August 2019                           |
| John Tripodi   | Independent Non-Executive Director           | Appointed 25 October 2018                         |
| Nicki Anderson | Independent Non-Executive Director           | Appointed 25 October 2018                         |
| David Jackson  | Chief Executive Officer                      | Appointed 2 May 2019<br>Resigned 4 September 2020 |
| Howard Abbey   | Acting Chief Executive Officer               | Appointed 4 September 2020                        |
|                | Company Secretary                            | Appointed 31 May 2018                             |
|                | Chief Financial Officer                      | Appointed 2 May 2018                              |

### Remuneration policy for directors and executives

The objective of the Funtastic remuneration policy is to attract, retain and motivate the people required to sustainably manage and grow the business. Executive remuneration packages include a balance of fixed remuneration, short-term cash incentives and long-term equity incentives. The framework endeavours to align executive reward with market conditions and shareholders' interests.

#### Principles of Compensation

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

Compensation of the senior executives is reviewed on an annual basis by the Remuneration & Nomination Committee having regard to personal and corporate performance and relevant comparative information. Compensation for senior executives comprises both fixed compensation and an "at risk" component. The "at risk" component comprises a short-term incentive payment based on a combination of the Company's results and individual performance levels, and a long-term incentive component pursuant to the Employee Incentive Plan.

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

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

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

## Directors' Report continued

### Compensation and Company performance

Funtastic Limited's Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) has been the key performance measure for the Company's incentive plan for executives, linked to individual key performance objectives.

#### Components of Compensation

##### Fixed Compensation

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

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

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

##### At risk Compensation

#### Annual Bonus

- The Short-Term Incentive (STI) plan is linked to specific targets (predominantly financial) with the opportunity to earn incentives based on a percentage of fixed compensation.
- Performance measurements have been applied to each component of STI and accordingly, entitlements were determined with consideration to the executive's level and area of responsibility. Performance against the objectives was determined and incentives and entitlements assessed against the audited financial results.

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

|  | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 | Year ended<br>31-Jul-18 | Year ended<br>31-Jul-17 | Year ended<br>31-Jul-16 |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Post Share Consolidation</b>        |                         |                         |                         |                         |                         |
| NPAT (\$'000) <sup>(i)</sup>           | <b>(9,313)</b>          | 7,596                   | 28,258                  | (33,466)                | (23,854)                |
| EPS Basic (Cents) <sup>(ii)</sup>      | <b>(3.94)</b>           | 3.64                    | 32.60                   | (115.75)                | (88.00)                 |
| Diluted EPS (Cents) <sup>(ii)</sup>    | <b>(3.94)</b>           | 3.61                    | 31.64                   | (115.75)                | (88.00)                 |
| Total Dividends (\$'000)               | <b>Nil</b>              | Nil                     | Nil                     | Nil                     | Nil                     |
| Year End Share Price (\$)              | <b>0.022</b>            | 0.065                   | 0.080                   | 0.150                   | 0.550                   |
| Shares on Issue (No.) <sup>(iii)</sup> | <b>240,404,075</b>      | 233,176,894             | 96,025,827              | 28,931,456              | 28,931,456              |
| Market Capitalisation (\$'000)         | <b>5,289</b>            | 15,156                  | 7,682                   | 4,557                   | 16,052                  |
| <b>Pre Share Consolidation</b>         |                         |                         |                         |                         |                         |
| EPS Basic (Cents) <sup>(ii)</sup>      | <b>(0.16)</b>           | 0.15                    | 1.30                    | (4.63)                  | (3.52)                  |
| Diluted EPS (Cents) <sup>(ii)</sup>    | <b>(0.16)</b>           | 0.14                    | 1.27                    | (4.63)                  | (3.52)                  |
| Year End Share Price (\$)              | <b>0.001</b>            | 0.003                   | 0.003                   | 0.006                   | 0.022                   |
| Shares on Issue (No.) <sup>(iii)</sup> | <b>6,010,101,875</b>    | 5,829,422,350           | 2,400,645,675           | 729,619,723             | 729,619,723             |
| Market Capitalisation (\$'000)         | <b>5,289</b>            | 15,156                  | 7,682                   | 4,557                   | 16,052                  |

(i) NPAT from group operations.

(ii) Basic & Diluted EPS from group operations.

(iii) Shares on Issue does not include shares held by the Group issued under the Employee Share Loan Scheme.

## Remuneration of Key Management Personnel compensation

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

| Year ended  | Short-term employee benefits |            |                       | Post-employment benefits | Other long-term employee benefits | Share-based payments |                                |  | Total            |
|---|------------------------------|------------|-----------------------|--------------------------|-----------------------------------|----------------------|--------------------------------|--|------------------|
|   | Salary and fees              | Cash Bonus | Non-monetary benefits | Super-annuation          | Long service leave                | Termination Benefits | Performance and service rights | Options Under Employee Share loan scheme |                  |
| <b>31 July 2020</b>   | \$                           | \$         | \$                    | \$                       | \$                                | \$                   | \$                             | \$                                       | \$               |
| <b>Directors</b>  |                              |            |                       |                          |                                   |                      |                                |  |                  |
| Bernie Brookes<br>(appointed<br>1 August 2019)                              | 157,733                      | –          | –                     | 14,985                   | –                                 | –                    | –                              | –  | 172,718          |
| John Tripodi  | 59,000                       | –          | –                     | 5,605                    | –                                 | –                    | –                              | –  | 64,605           |
| Nicki Anderson  | 59,000                       | –          | –                     | 5,605                    | –                                 | –                    | –                              | –  | 64,605           |
| <b>Sub-Totals</b>   | <b>275,733</b>               | <b>–</b>   | <b>–</b>              | <b>26,195</b>            | <b>–</b>                          | <b>–</b>             | <b>–</b>                       | <b>–</b>                                 | <b>301,928</b>   |
| <b>Executives</b>   |                              |            |                       |                          |                                   |                      |                                |  |                  |
| David Jackson<br>(appointed<br>2 May 2019,<br>resigned<br>4 September 2020) | 407,599                      | –          | –                     | 42,424                   | 569                               | –                    | –                              | –  | 450,592          |
| Howard Abbey  | 265,000                      | –          | –                     | 25,000                   | 787                               | –                    | –                              | –  | 290,787          |
| <b>Sub-Totals</b>   | <b>672,599</b>               | <b>–</b>   | <b>–</b>              | <b>67,424</b>            | <b>1,356</b>                      | <b>–</b>             | <b>–</b>                       | <b>–</b>                                 | <b>741,379</b>   |
| <b>TOTALS</b>   | <b>948,332</b>               | <b>–</b>   | <b>–</b>              | <b>93,619</b>            | <b>1,356</b>                      | <b>–</b>             | <b>–</b>                       | <b>–</b>                                 | <b>1,043,307</b> |

## Directors' Report continued

| Year ended                                     | Short-term employee benefits |            |                       | Post-employment benefits | Other long-term employee benefits | Share-based payments |                                    |  | Total          |
|--|------------------------------|------------|-----------------------|--------------------------|-----------------------------------|----------------------|------------------------------------|--|----------------|
|  | Salary and fees              | Cash Bonus | Non-monetary benefits | Super-annuation          | Long service leave                | Termination Benefits | Performance and service rights (i) | Options Under Employee Share loan scheme |                |
| <b>31 July 2019</b>                            | \$                           | \$         | \$                    | \$                       | \$                                | \$                   | \$                                 | \$                                       | \$             |
| <b>Directors</b>                               |                              |            |                       |                          |                                   |                      |                                    |  |                |
| Shane Tanner<br>(resigned<br>31 July 2019)     | 123,600                      | –          | –                     | –                        | –                                 | –                    | –                                  | –  | 123,600        |
| Stephen Heath<br>(resigned<br>6 February 2019) | 33,073                       | –          | –                     | 5,386                    | –                                 | –                    | –                                  | –  | 38,459         |
| Steven Leighton<br>(resigned<br>31 March 2019) | 328,880                      | –          | –                     | 26,694                   | –                                 | –                    | (119,125)                          | –  | 236,449        |
| John Tripodi                                   | 46,087                       | –          | –                     | 4,378                    | –                                 | –                    | –                                  | –  | 50,465         |
| Nicki Anderson                                 | 46,087                       | –          | –                     | 4,378                    | –                                 | –                    | –                                  | –  | 50,465         |
| <b>Sub-Totals</b>                              | <b>577,727</b>               | <b>–</b>   | <b>–</b>              | <b>40,836</b>            | <b>–</b>                          | <b>–</b>             | <b>(119,125)</b>                   | <b>–</b>                                 | <b>499,438</b> |
| <b>Executives</b>                              |                              |            |                       |                          |                                   |                      |                                    |  |                |
| David Jackson<br>(appointed<br>2 May 2019)     | 110,869                      | –          | –                     | –                        | –                                 | –                    | –                                  | –  | 110,869        |
| Howard Abbey                                   | 258,311                      | –          | –                     | 22,639                   | 316                               | –                    | –                                  | –  | 281,266        |
| <b>Sub-Totals</b>                              | <b>369,180</b>               | <b>–</b>   | <b>–</b>              | <b>22,639</b>            | <b>316</b>                        | <b>–</b>             | <b>–</b>                           | <b>–</b>                                 | <b>392,135</b> |
| <b>TOTALS</b>                                  | <b>946,907</b>               | <b>–</b>   | <b>–</b>              | <b>63,475</b>            | <b>316</b>                        | <b>–</b>             | <b>(119,125)</b>                   | <b>–</b>                                 | <b>891,573</b> |

(i) There is a negative expense for share-based payments as vesting criteria of rights issued has not been met.

|   | Fixed remuneration |      | Remuneration linked to performance |      |
|---|--------------------|------|------------------------------------|------|
|   | 2020               | 2019 | 2020                               | 2019 |
| <b>Directors</b>  |                    |      |                                    |      |
| Bernie Brookes (appointed 1 August 2019)                            | 100%               | N/A  | –                                  | N/A  |
| John Tripodi (appointed 25 October 2018)                            | 100%               | 100% | –                                  | –    |
| Nicki Anderson (appointed 25 October 2018)                          | 100%               | 100% | –                                  | –    |
| Shane Tanner (resigned 31 July 2019)                                | N/A                | 100% | N/A                                | –    |
| Stephen Heath (resigned 6 February 2019)                            | N/A                | 100% | N/A                                | –    |
| Steven Leighton (resigned 31 March 2019)                            | N/A                | 100% | N/A                                | –    |
| <b>Executive Officers</b>   |                    |      |                                    |      |
| David Jackson (appointed CEO 2 May 2019, resigned 4 September 2020) | 100%               | 100% | –                                  | –    |
| Howard Abbey (appointed CFO 2 May 2018)                             | 100%               | 100% | –                                  | –    |

## Short term incentives

In 2020 no STI payments were made (2019 nil).

## Long term incentives

In 2020 no LTI payments were made (2019 nil).

## Service Agreements

Remuneration and other terms of employment for the Chair, Managing Director, Non-Executive Directors, Chief Executive Officer and the other executives are formalised in service agreements/employment letters. In the case of the Chief Executive Officer and other Executives, these allow for the provision of performance-related cash bonuses and, where eligible, participation in the Funtastic Limited Employee Incentive Plan (excludes Chair, Managing Director and Non-Executive Directors). Additionally, other benefits including car allowances can be provided to all Key Management Personnel.

Other major provisions of the service agreements relating to the remuneration of Directors and Executives are set out below:

### **Bernie Brookes – Chair & Independent Non-Executive Director**

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

### **John Tripodi – Non-executive Director**

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

### **Nicki Anderson – Non-executive Director**

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

### **David Jackson – Chief Executive Officer**

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

### **Howard Abbey – Chief Financial Officer and Company Secretary**

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

## Directors' Report continued

**Key management personnel equity holdings**

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

**Share options and rights**

The tables below include balances for unlisted options, service rights and performance rights.

| Year ended<br>31 July 2020 | Balance at<br>the start<br>of the year | Granted<br>during the<br>year | Options/<br>Rights<br>expired<br>during the<br>year | Options/<br>Rights<br>forfeited<br>during the<br>year | Balance at<br>the end of<br>the year | Vested and<br>exercisable<br>at the end<br>of the<br>year <sup>(i)</sup> |
|----------------------------|--|-------------------------------|---|---|--------------------------------------|--|
| Directors                  | -                                      | -                             | -   | -   | -                                    | -  |
| Executive Officers         | -                                      | -                             | -   | -   | -                                    | -  |
| <b>Totals</b>              | -                                      | -                             | -   | -   | -                                    | -  |

| Year ended<br>31 July 2019 | Balance at<br>the start<br>of the year | Granted<br>during the<br>year | Options/<br>Rights<br>expired<br>during the<br>year | Options/<br>Rights<br>forfeited<br>during the<br>year | Balance at<br>the end of<br>the year | Vested and<br>exercisable<br>at the end<br>of the<br>year <sup>(ii)</sup> |
|----------------------------|--|-------------------------------|---|---|--------------------------------------|---|
| <b>Executive Directors</b> |  |                               |   |   |                                      |   |
| Steven Leighton            | 3,443,836                              | -                             | -   | (1,800,000)   | 1,643,836                            | 1,643,836   |
| <b>Totals</b>              | <b>3,443,836</b>                       | -                             | -   | <b>(1,800,000)</b>                                    | <b>1,643,836</b>                     | <b>1,643,836</b>  |

(i) No options/rights were vested, exercised or exercisable during FY20.

(ii) 1,643,836 service rights vested and were exercisable during FY19. These rights were exercised on 18 June 2020 into fully paid ordinary shares.

**Share based compensation****Share Right Plans**

Under the terms of his employment contract Mr Steven Leighton received a one-off grant on 26 October 2017 of 1,643,836 service rights as a sacrifice of \$205,479.45 of Mr Leighton's cash salary (fair value at the grant date of \$0.125 (12.5 cents) per share).

The service rights vested on 31 October 2018 as Mr Leighton met the service condition of being in continuous employment with Funtastic from the commencement of his employment until the vesting date (the Service Condition). The service rights expire on 31 December 2021 and Mr Leighton exercised these rights on 18 June 2020 into fully paid ordinary shares.



## Ordinary shares

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

| Year ended<br>31 July 2020  | Balance at<br>the start<br>of the year | Shares<br>purchased<br>during the<br>year | Received<br>on exercise<br>of options | Shares sold<br>during the<br>year | Balance at<br>the end of<br>the period | Balance<br>held<br>nominally |
|---|--|---|---------------------------------------|-----------------------------------|--|------------------------------|
| <b>Directors</b>  |  |   |                                       |                                   |  |                              |
| Bernie Brookes<br>(appointed 1 August 2019)                           | 300,000                                | 600,000                                   | –                                     | –                                 | 900,000                                | 900,000                      |
| Nicki Anderson  | 1,075,467                              | –   | –                                     | –                                 | 1,075,467                              | 1,075,467                    |
| <b>Sub-Total</b>  | <b>1,375,467</b>                       | <b>600,000</b>                            | <b>–</b>                              | <b>–</b>                          | <b>1,975,467</b>                       | <b>1,975,467</b>             |
| <b>Executives</b>   |  |   |                                       |                                   |  |                              |
| David Jackson<br>(appointed 2 May 2019,<br>resigned 4 September 2020) | 1,353                                  | –   | –                                     | –                                 | 1,353                                  | 1,353                        |
| <b>Sub-Total</b>  | <b>1,353</b>                           | <b>–</b>                                  | <b>–</b>                              | <b>–</b>                          | <b>1,353</b>                           | <b>1,353</b>                 |
| <b>Grand Total</b>  | <b>1,376,820</b>                       | <b>600,000</b>                            | <b>–</b>                              | <b>–</b>                          | <b>1,976,820</b>                       | <b>1,976,820</b>             |

| Year ended<br>31 July 2019                       | Balance at<br>the start<br>of the year | Shares<br>purchased<br>during the<br>year | Received<br>on exercise<br>of options | Shares sold<br>during the<br>year | Balance at<br>the end of<br>the period | Balance<br>held<br>nominally |
|--|--|---|---------------------------------------|-----------------------------------|--|------------------------------|
| <b>Directors</b>                                 |  |   |                                       |                                   |  |                              |
| Shane Tanner<br>(resigned 31 July 2019)          | 2,000,000                              | –   | –                                     | –                                 | 2,000,000                              | 2,000,000                    |
| Stephen Heath<br>(resigned 6 February 2019)      | 1,769,863                              | 1,599,000                                 | –                                     | –                                 | 3,368,863                              | 3,368,863                    |
| Steven Leighton<br>(resigned 31 March 2019)      | 1,600,000                              | –   | –                                     | –                                 | 1,600,000                              | 1,600,000                    |
| Nicki Anderson<br>(appointed<br>25 October 2018) | 1,075,467                              | –   | –                                     | –                                 | 1,075,467                              | 1,075,467                    |
| <b>Sub-Total</b>                                 | <b>6,445,330</b>                       | <b>1,599,000</b>                          | <b>–</b>                              | <b>–</b>                          | <b>8,044,330</b>                       | <b>8,044,330</b>             |
| <b>Executives</b>                                |  |   |                                       |                                   |  |                              |
| David Jackson<br>(appointed 2 May 2019)          | 1,353                                  | –   | –                                     | –                                 | 1,353                                  | 1,353                        |
| <b>Sub-Total</b>                                 | <b>1,353</b>                           | <b>–</b>                                  | <b>–</b>                              | <b>–</b>                          | <b>1,353</b>                           | <b>1,353</b>                 |
| <b>Grand Total</b>                               | <b>6,446,683</b>                       | <b>1,599,000</b>                          | <b>–</b>                              | <b>–</b>                          | <b>8,045,683</b>                       | <b>8,045,683</b>             |

## Directors' Report continued

**a) Equity interests in related parties**

Equity interests in subsidiaries.

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 24 to the financial statements.

**b) Transactions with Key Management Personnel**

*Key management personnel compensation*

Details of key management personnel compensation are disclosed in Note 28 to the financial statements.

*Loans from key management personnel*

During the financial year, the Group did not recognise any loan transactions with key management personnel.

There are no outstanding loans from key management personnel as at 31 July 2020.

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

|   | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|---|-------------------------|-------------------------|
|   | \$                      | \$                      |
| Consolidated profit includes the following amounts arising from transactions with key management personnel of the Group or their related parties: |                         |                         |
| Other expenses  | –                       | 102,714                 |
|   | –                       | <b>102,714</b>          |

The above transactions were performed at arm's length.

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

- purchases of \$0 (2019: \$102,714 to Mr Stephen Heath for external consulting services).

**c) Transactions with other related parties**

Transactions between Funtastic Limited and other entities in the wholly owned Group during the financial years ended 31 July 2019 and 31 July 2020, which were eliminated on consolidation, consist of:

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

**End of Remuneration report (audited)**

## Indemnity of officers and auditors

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

## Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 30 to the financial statements. The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are of the opinion that the services as disclosed in Note 30 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit & Risk Committee, for the following reasons:

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

## Rounding of amounts to nearest thousand dollars

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

## Auditor's independence declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 28 of this annual report.

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

On behalf of the Directors,



**Bernie Brookes AM**  
Chair of the Board

29 October 2020

# Auditor's Independence Declaration



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## Auditor's Independence Declaration

To the Directors of Funtastic Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Funtastic Limited for the year ended 31 July 2020, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton Audit Pty Ltd  
Chartered Accountants

B L Taylor  
Partner – Audit & Assurance

Melbourne, 29<sup>th</sup> October 2020

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# Independent Auditor's Report



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## Independent Auditor's Report

To the Members of Funtastic Limited

### Report on the audit of the financial report

#### Opinion

We have audited the financial report of Funtastic Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 July 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the Group's financial position as at 31 July 2020 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

#### Material uncertainty related to going concern

We draw attention to Note 1 in the financial statements, which indicates that the Group generated a net loss from continuing operations of \$9,205,000 during the year ended 31 July 2020, and as of that date, the Group's liabilities exceed its assets by \$8,635,000. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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## Independent Auditor's Report continued



### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

| Key audit matter  | How our audit addressed the key audit matter  |
|---|---|
| <p><b>Provision for inventory obsolescence – refer to Note 3 and Note 10</b></p> <p>Inventory is a material item within the statement of financial position and is valued using the weighted average cost methodology and is stated at the lower of cost and net realisable value in accordance with AASB 102 Inventories.</p> <p>Inventory primarily comprises discretionary consumer products, including toys and confectionary, which are susceptible to obsolescence. The determination of the recoverable value and the related provision for obsolescence involves a high level of management judgement.</p> <p>This area is a key audit matter due to the management judgment required in determining the provision.</p> | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• Documenting our understanding of internal processes and controls associated with the determination of the provision for obsolescence;</li> <li>• Documenting and understanding the underlying methodology upon which managements provision is based and considering for any changes from the previous year;</li> <li>• Testing the provision calculation for mathematical accuracy;</li> <li>• Analysing management's assessment of the provision required for particular products identified which are deemed to be of higher risk of obsolescence including consideration of sales and aged inventory reports prepared by management;</li> <li>• Performing analytical procedures and ratio analysis on the provision of obsolete inventory compared to previous periods to identify unusual trends;</li> <li>• Considering the adequacy of the provision through selecting a sample of inventory items and tracing to the most recent sales invoice to determine whether items are sold less than cost and thus indicative of requiring a provision for stock obsolescence; and</li> <li>• Selecting a sample of inventory items and tracing to vendor invoices to ensure inventory is recognised at the appropriate cost.</li> </ul> |

### Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 July 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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#### Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [https://www.auasb.gov.au/auditors\\_responsibilities/ar1\\_2020.pdf](https://www.auasb.gov.au/auditors_responsibilities/ar1_2020.pdf). This description forms part of our auditor's report.

#### Report on the remuneration report

##### Opinion on the remuneration report

We have audited the Remuneration Report included in the Directors' report for the year ended 31 July 2020.

In our opinion, the Remuneration Report of Funtastic Limited, for the year ended 31 July 2020 complies with section 300A of the *Corporations Act 2001*.

#### Responsibilities

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.

A handwritten signature in black ink, appearing to read "Grant Thornton", written over a faint circular stamp.

Grant Thornton Audit Pty Ltd  
Chartered Accountants

A handwritten signature in black ink, appearing to read "B L Taylor", written over a faint circular stamp.

B L Taylor  
Partner – Audit & Assurance

Melbourne, 29<sup>th</sup> October 2020

## Directors' Declaration

The directors declare that:

- a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1 to the financial statements;
- c) in the directors' opinion, the attached financial statements and Notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group; and
- d) the directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

At the date of this declaration, the Company is within the class of companies affected by ASIC Legislative Instrument 2016/785 and has entered into a deed of cross guarantee as contemplated in that order. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in Note 24 to the financial statements will, as a Group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

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

On behalf of the Directors,



**Bernie Brookes AM**  
Chair of the Board

Melbourne

29 October 2020

# Consolidated Statement of Profit or Loss and other Comprehensive Income

for the year ended 31 July 2020

|  | Note | 31-Jul-20<br>\$'000 | 31-Jul-19<br>\$'000 |
|--|------|---------------------|---------------------|
| Revenue  | 6    | 24,597              | 29,959              |
| Cost of Goods Sold   |      | (21,067)            | (25,054)            |
| <b>Gross profit</b>  |      | <b>3,530</b>        | <b>4,905</b>        |
| Investment Income  | 7    | 3                   | 1                   |
| Other Income   | 7    | 300                 | –                   |
| Warehouse and Distribution Expenses  |      | (2,205)             | (2,310)             |
| Marketing and Selling Expenses   |      | (1,027)             | (599)               |
| Administration Expenses  |      | (3,723)             | (2,361)             |
| Staff Expenses   |      | (4,611)             | (5,940)             |
| Loan Forgiveness   |      | –                   | 15,710              |
| Impairment of Goodwill and Intangible Assets   | 7    | –                   | (702)               |
| <b>Earnings before interest, taxation, amortisation and depreciation (EBITDA)</b>              |      | <b>(7,733)</b>      | <b>8,704</b>        |
| Finance Costs  |      | (1,152)             | (703)               |
| Depreciation Expenses  | 7    | (263)               | (88)                |
| Amortisation Expenses  | 7    | (57)                | (311)               |
| <b>Profit/(Loss) before income tax</b>   |      | <b>(9,205)</b>      | <b>7,602</b>        |
| Income tax (expense)/benefit   | 8    | –                   | (96)                |
| <b>Profit/(Loss) for the period from continuing operations</b>                                 |      | <b>(9,205)</b>      | <b>7,506</b>        |
| <b>Discontinued operations</b>   |      |                     |                     |
| Profit/(Loss) from Discontinued Operations   | 5    | (108)               | 90                  |
| <b>Profit/(Loss) for the year</b>  |      | <b>(9,313)</b>      | <b>7,596</b>        |
| <b>Other comprehensive income (net of tax)</b>   |      |                     |                     |
| Items that may be reclassified subsequently to profit or loss                                  |      |                     |                     |
| Exchange differences on translating foreign operations   |      | 886                 | (980)               |
| <b>Other comprehensive income/(loss) for the year (net of tax)</b>                             |      | <b>886</b>          | <b>(980)</b>        |
| <b>Total comprehensive income/(loss) for the year attributable to the members of Funtastic</b> |      | <b>(8,427)</b>      | <b>6,615</b>        |
| <b>Earnings per share</b>  |      |                     |                     |
| Basic earnings/(loss) per share (cents per share)  | 21   | (3.94)              | 3.64                |
| Diluted earnings/(loss) per share (cents per share)  | 21   | (3.94)              | 3.61                |
| <b>Earnings per share – continuing operations</b>  |      |                     |                     |
| Basic earnings/(loss) per share (cents per share)  | 21   | (3.89)              | 3.60                |
| Diluted earnings/(loss) per share (cents per share)  | 21   | (3.89)              | 3.57                |

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

# Consolidated Statement of Financial Position

as at 31 July 2020

|   | Note | 31-Jul-20<br>\$'000 | 31-Jul-19<br>\$'000 |
|---|------|---------------------|---------------------|
| <b>Current Assets</b>                                 |      |                     |                     |
| Cash  | 26   | 367                 | 465                 |
| Receivables   | 9    | 1,809               | 3,460               |
| Inventories   | 10   | 1,373               | 5,037               |
| Tax Receivable  | 8    | –                   | 19                  |
| Other Assets  | 11   | 590                 | 1,554               |
| <b>Total Current Assets</b>                           |      | <b>4,139</b>        | <b>10,535</b>       |
| <b>Non-Current Assets</b>                             |      |                     |                     |
| Property, Plant and Equipment                         | 13   | 25                  | 40                  |
| Other Intangibles                                     | 14   | 102                 | 212                 |
| Right of Use Assets                                   | 12   | 691                 | –                   |
| Other Assets  | 11   | 50                  | 50                  |
| <b>Total Non-Current Assets</b>                       |      | <b>868</b>          | <b>302</b>          |
| <b>Total Assets</b>                                   |      | <b>5,007</b>        | <b>10,837</b>       |
| <b>Current Liabilities</b>                            |      |                     |                     |
| Trade Payables  |      | 1,154               | 3,730               |
| Other Payables  |      | 171                 | 511                 |
| Interest Bearing Liabilities (excluding Bill Finance) | 16   | 478                 | 1,657               |
| Provisions  | 17   | 241                 | 469                 |
| Lease Liabilities                                     | 18   | 211                 | –                   |
| Other Liabilities                                     | 19   | 2,411               | 1,094               |
| <b>Total Current Liabilities</b>                      |      | <b>4,666</b>        | <b>7,461</b>        |
| <b>Non-Current Liabilities</b>                        |      |                     |                     |
| Interest Bearing Liabilities                          | 16   | 8,428               | 3,676               |
| Provisions  | 17   | 13                  | 21                  |
| Lease Liabilities                                     | 18   | 535                 | –                   |
| <b>Total Non-Current Liabilities</b>                  |      | <b>8,976</b>        | <b>3,697</b>        |
| <b>Total Liabilities</b>                              |      | <b>13,642</b>       | <b>11,158</b>       |
| <b>Net Liabilities</b>                                |      | <b>(8,635)</b>      | <b>(321)</b>        |
| <b>Equity</b>   |      |                     |                     |
| Issued capital  | 20   | 225,166             | 224,848             |
| Accumulated Losses                                    |      | (233,086)           | (223,773)           |
| Reserves  | 20   | (715)               | (1,396)             |
| <b>Total Deficiency</b>                               |      | <b>(8,635)</b>      | <b>(321)</b>        |

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

# Consolidated Statement of Changes in Equity

for the year ended 31 July 2020

|   | Issued<br>Capital | Accum-<br>ulated<br>Losses | Foreign<br>Currency<br>Translation<br>Reserve | Equity<br>settled<br>Employee<br>Benefits<br>Reserve | Total           |
|---|-------------------|----------------------------|---|--|-----------------|
|   | \$'000            | \$'000                     | \$'000  | \$'000   | \$'000          |
| <b>Balance at 1 August 2018</b>           | <b>217,400</b>    | <b>(231,369)</b>           | <b>(621)</b>                                  | <b>324</b>   | <b>(14,266)</b> |
| Profit/(loss) for the year                | –                 | 7,596                      | –   | –  | 7,596           |
| Other comprehensive income                | –                 | –                          | (980)   | –  | (980)           |
| Total comprehensive profit                | –                 | 7,596                      | (980)   | –  | 6,615           |
| Issue of ordinary shares                  | 7,448             | –                          | –   | –  | 7,448           |
| Forfeit of share rights                   | –                 | –                          | –   | (119)  | (119)           |
| <b>Balance at 31 July 2019</b>            | <b>224,848</b>    | <b>(223,773)</b>           | <b>(1,601)</b>                                | <b>205</b>   | <b>(321)</b>    |
| Profit/(loss) for the year                | –                 | (9,313)                    | –   | –  | (9,313)         |
| Other comprehensive income                | –                 | –                          | 886   | –  | 886             |
| Total comprehensive profit/(loss)         | –                 | (9,313)                    | 886   | –  | (8,427)         |
| Issue of ordinary shares                  | 113               | –                          | –   | –  | 113             |
| Transfer of share based payments/expenses | 205               | –                          | –   | (205)  | –               |
| <b>Balance at 31 July 2020</b>            | <b>225,166</b>    | <b>(233,086)</b>           | <b>(715)</b>                                  | <b>–</b>   | <b>(8,635)</b>  |

# Consolidated Statement of Cash Flows

for the year ended 31 July 2020

|   | Note  | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|---|-------|-------------------------|-------------------------|
|   |       | \$'000                  | \$'000                  |
| <b>Cash Flows from Operating Activities</b>             |       |                         |                         |
| Receipts from customers                                 |       | 27,741                  | 31,119                  |
| Receipts from other income                              | 7     | 300                     | –                       |
| Payments to suppliers                                   |       | (25,785)                | (32,687)                |
| Payments to employees                                   |       | (4,656)                 | (5,929)                 |
| Cash (utilised)/generated from operations               |       | (2,400)                 | (7,497)                 |
| Income taxes refunded/(paid)                            |       | 19                      | 29                      |
| Interest and other costs of finance paid                |       | (341)                   | (562)                   |
| <b>Net cash outflow from operating activities</b>       | 25(c) | <b>(2,722)</b>          | <b>(8,030)</b>          |
| <b>Cash Flows from Investing Activities</b>             |       |                         |                         |
| Interest and other investment income received           |       | 3                       | 1                       |
| Payments for plant and equipment                        |       | (35)                    | (5)                     |
| Payments for other intangible assets                    |       | (42)                    | (147)                   |
| <b>Net cash outflow from investing activities</b>       |       | <b>(74)</b>             | <b>(151)</b>            |
| <b>Cash Flows from Financing Activities</b>             |       |                         |                         |
| Proceeds from borrowings                                |       | 2,763                   | 5,666                   |
| Repayment of commercial bills                           |       | –                       | (5,136)                 |
| Repayment of Lease Liabilities                          |       | (178)                   | –                       |
| Security deposit paid                                   |       | –                       | (50)                    |
| Proceeds from share issue                               |       | 132                     | 8,232                   |
| Costs from share issue                                  |       | (19)                    | (784)                   |
| <b>Net cash inflow from financing activities</b>        |       | <b>2,698</b>            | <b>7,928</b>            |
| <b>Net increase/(decrease) in Cash Held</b>             |       |                         |                         |
| Cash and cash equivalents at the beginning of the year  |       | 465                     | 718                     |
| <b>Cash and cash equivalents at the end of the year</b> | 25(a) | <b>367</b>              | <b>465</b>              |

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



# Notes to the Financial Statements

for the year ended 31 July 2020

## NOTE I: Significant accounting policies

### Statement of compliance

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

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

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

The financial statements were authorised for issue by the directors on 29 October 2020.

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

### Basis of preparation

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

### Going concern basis

The financial report has been prepared on the going concern basis which contemplates the continuity of business activities and the realisation of assets and the payment of liabilities in the normal course of business.

The loss for the period from continuing operations is \$9.2 million.

As at 31 July 2020 the current net liability position is \$0.5 million. Non-current liabilities of \$8.4 million are a long-term loan with no covenants and a due date of 31 December 2023.

The Group has entered into a secured loan agreement with Jaszac Investments Pty Ltd (Jaszac), for Jaszac to provide funding to the Company of an amount up to AUD\$12.2 million for the purpose of general working capital. The final repayment date of the loan is 31 December 2023. As at 31 July 2020 the balance of loan drawn was \$7.5 million with interest owing of \$0.9m giving a total liability of \$8.4 million and the available loan limit as per the loan agreement was \$10.375 million. Additionally, the Group has a working capital facility of AUD5.0 million plus USD5.0 million with Scottish Pacific Business Finance secured by the debtor assets of the business.

As detailed in note 32, subsequent to the balance date the Group has entered into a proposed transaction that includes a conditional capital raising and debt to equity conversion. If the proposed transaction is successful, the Group is expected to realise a significant net cash position that will strengthen its ability to continue as a going concern.

Should the Group be unable to continue as a going concern, it may be required to realise assets and extinguish liabilities at amounts different to those recorded in the financial statements.

The ability for the Group to continue as a going concern is dependent upon the following factors:

- sustaining the improved financial results through current trading;
- implementation of strategic initiatives to drive profitable growth;
- securing additional funding either through debt, equity or a combination of both; and
- continued support of creditors and customers through appropriate trading terms.

The Directors believe that the Group will be able to achieve the improved results and deliver the strategic initiatives and are satisfied that the Group will continue as a going concern. Accordingly, the financial report has been prepared on a going concern basis.

## Notes to the Financial Statements continued

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (referred to as "the Group" in these financial statements). Control is achieved when the Company:

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

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

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

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

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

All intra-Group assets and liabilities, equity, income and expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

### Income tax

#### (i) Current tax

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

#### (ii) Deferred tax

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

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

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

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

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

#### (iii) Current and deferred tax for the period

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

#### **(iv) Tax Losses**

A deferred tax asset in respect to tax losses is only recognised where there is a reasonable certainty that future taxable profits will be guaranteed. Management assesses continuity of ownership test and same business test hurdles bi-annually.

#### **(v) Tax Consolidation**

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

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated Group, amounts are recognised as payable to or receivable by the Company and each member of the Group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated Group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in Note 8 to the financial statements.

### **Foreign currency translation**

#### **(i) Functional and presentation currency**

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

#### **(ii) Transactions and balances**

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

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

#### **(iii) Group companies**

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each profit or loss presented are translated at the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

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

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

### **Cash and cash equivalents**

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

## Notes to the Financial Statements continued

### Revenue

Revenue arises mainly from the sale of goods to customers.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer.
2. Identifying the performance obligations.
3. Determining the transaction price.
4. Allocating the transaction price to the performance obligations.
5. Recognising revenue when/as performance obligation(s) are satisfied.

### Sale of Goods

The Group generates the majority of its revenue from the sales of goods. Sale of goods is recognised when the Group has transferred the control of goods to the customer. Revenue from the sale of goods is recognised on delivery to the customer.

### Government Grants

Government grants relating to costs are deferred and recognised in profit and loss over the period necessary to match them with the costs that they are intended to compensate. Government payments received in relation to COVID-19 have been recognised under other income.

### Plant and Equipment

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

Depreciation is calculated on a straight-line basis to write off the net cost of each item of plant and equipment over the shorter of its expected useful life and the lease term. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

The cost of improvements to or on leasehold properties is amortised over the estimated useful life of the improvement to the Group. The expected useful lives are as follows:

|                         |                |
|-------------------------|----------------|
| Plant and equipment:    | 2.5 – 10 years |
| Leasehold improvements: | 3 – 5 Years    |

### Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method less any allowances for expected credit losses. Trade receivables are generally due for settlement within 30-60 days. The Group has applied the simplified approach to measure expected credit losses which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost less any allowance for expected credit losses.

### Inventories

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

Stock write downs occur where the estimated selling price of stock, in the ordinary course of business, is less than the estimated costs of completion and costs necessary to make the sale. Excess stock levels are reviewed on a regular basis, where discussions with the sales teams are undertaken.

## Trade payables

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

The amounts are unsecured and usually paid within 30 to 90 days of recognition. The average credit period on purchases of certain goods from international supplier's ranges from 4 weeks to 4 months. There is no interest charged on trade payables. The Group has financial risk management policies in place to ensure that, as often as possible, all payables are paid within a reasonable timeframe.

## Goods and services tax

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

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

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

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

## Leased Non-Current Assets (before 1 August 2019)

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

Finance leases are capitalised (Note 18). A leased asset and a liability are established at the lower of fair value and the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense, so as to achieve a constant rate of interest on the remaining balance of the liability.

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

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

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

## Share-based payments

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

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

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

## Notes to the Financial Statements continued

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

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

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

### Borrowings

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

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

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

### Borrowing costs

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

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

### Employee benefits

#### (i) Wages and salaries and annual leave

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

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

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

#### (ii) Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

#### (iii) Profit sharing and bonus plans

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

#### (iv) Employee benefit on-costs

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



## Intangible assets

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

Intangible assets are amortised, based on the useful live assessed by management, as follows:

- Software 3 years
- Patents 20 years
- Trademarks 3-5 years
- Licensed distribution agreements 1-3 years
- Brand names 3-5 years

## Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risk, including forward contracts comprising foreign exchange forward contracts and options. Further details of derivative financial instruments are disclosed in Note 26 to the financial statements.

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

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

## Financial assets

### *Recognition and derecognition*

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

### *Classification and initial measurement of financial assets*

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

## Notes to the Financial Statements continued

### **Subsequent measurement of financial assets**

For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following categories upon initial recognition:

- financial assets at amortised cost; and
- financial assets at fair value through profit or loss (FVPL).

Classifications are determined by both:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial assets.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

### **Financial assets at amortised cost**

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

### **Impairment of financial assets**

AASB 9's impairment model uses more forward-looking information to recognize expected credit losses – the 'expected credit losses (ECL) model'. The application of the new impairment model depends on whether there has been a significant increase in credit risk.

The Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1'); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date. '12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

## Financial instruments issued by the Group

### (i) Equity instruments

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

### (ii) Other financial liabilities

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

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

## Provisions

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

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

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

## License guarantee commitments

The Group enters into royalty agreements. The terms of the royalty agreements require minimum levels of royalty payments to be offset against the minimum guarantees received at the start of the agreement. If, after calculating the net contribution relating to the products sold under the specific agreement, there is a shortfall between the minimum guarantee and the actual royalty derived (or forecast to be derived in future periods) from the reported sales the agreement is impaired. Net contribution is calculated after taking into account net sales revenue, cost of goods sold, applicable royalties and direct selling costs. If the royalty shortfall cannot be recovered from the resulting net contribution a provision is made through profit or loss.

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

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

Recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

## An impairment loss is recognised immediately in the profit and loss.

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

## Notes to the Financial Statements continued

### Discontinued operations

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

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

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

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

### Determination of fair values

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

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

The fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at measurement date.

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

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

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

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

### Cash flow hedges

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

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

Note 26 contains details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in the statement of changes in equity.

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

Amounts accumulated in equity are recycled in the statement of profit or loss in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability. When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of profit or loss.

## **NOTE 2: Application of new and revised accounting standards**

### **2.1 Amendments to AASBs and the new Interpretation that are mandatorily effective for the current year**

In the current year, the Group has applied all amendments to AASBs issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 August 2019.

#### ***Interpretation 23 Uncertainty over Income Tax Treatments***

Interpretation 23 clarifies the accounting for uncertainties in income tax. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates ('tax amounts'), when there is uncertainty over income tax treatments under AASB 112 *Income Taxes*.

The Interpretation requires an entity to:

- Use judgement to determine whether each tax treatment should be considered independently or whether some tax treatment should be considered together.
- Assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so.
- Determine tax amounts on a basis that is consistent with the tax treatment included in its income tax filing is an entity concludes that it is probable that it is probable that a particular tax treatment will be accepted by the taxation authorities.
- Determine tax amounts using the most likely amount or expected value of the tax treatment (whichever provides better prediction of the resolution of the uncertainty) where an entity concluded that it is not probable that a particular tax treatment will be accepted by the taxation authorities.

The Group has assessed that impact of Interpretation 23 and determined there is no impact to the financial statements.

#### ***AASB 16 Leases***

In the current year, the Group has applied AASB16 *Leases* that is effective for annual periods that begin on or after 1 January 2019. AASB 16 replaces AASB 117 *Leases* and several lease related interpretations. The new Standard has been applied using the modified retrospective approach. Prior periods have not been restated and there have been no adjustments to opening retaining earnings.

AASB 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability except for short-term leases and leases of low value assets where such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of AASB 16 on the Group's consolidated financial statement is described below.

The date of initial application of AASB 16 for the Group is 1 August 2019.

## Notes to the Financial Statements continued

The Group has applied AASB 16 using the cumulative catch-up approach which:

- At commencement date measures the lease liability at the present value of the lease payments unpaid at that date.
- Requires the Group to measure assets at the amount equal to liabilities with adjustments using accruals and prepayments.
- Does not permit restatement of comparatives, which continue to be presented under AASB 117 and Interpretation 4.

#### Impact of the new definition of a lease

The Group has reassessed all contracts to determine if they contain a lease in accordance with the definition of a lease within AASB 117 and Interpretation 4.

The change in definition of a lease mainly relates to the concept of control. AASB 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

#### Impact on Lessee Accounting

AASB 16 changes how the Group accounts for leases previously classified as operating leases under AASB 117, which were off balance sheet.

Applying AASB 16, for all leases, the Group:

- Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments in accordance with AASB 16.
- Recognises depreciation of right-of-use assets and interest on the lease liabilities in the consolidated statement of profit or loss.
- Separates the total amount of cash paid into a principal portion (presented within financing activities and interest presented within operating activities) in the consolidated statement of cash flows.

#### Financial impact on initial application of AASB 16

The weighted average incremental borrowing rate applied to leases liabilities recognised under AASB 16 in the statement of financial position on 1 August 2019 is 12%.

The following is a reconciliation of total operating lease commitments at 31 July 2019 to the lease liabilities recognised at 1 August 2019:

|  | <b>1 August 2019</b> |
|--|----------------------|
|  | <b>\$'000</b>        |
| Operating lease commitments as at 31 July 2019   | 1,412                |
| Less: Adjustment to lease term   | (236)                |
| Less: Discounted operating lease commitments using the incremental borrowing rate at 1 August 2019 | (253)                |
| <b>Lease Liability recognised at 1 August 2019</b>   | <b>923</b>           |

#### Comparatives

As described, the Group applied AASB 16 using the modified retrospective method approach and therefore comparative information has not been restated. This means comparative information is still reported under AASB 117.

#### Option to Extend

There is an option of this contract to renew it for a further 5 years which has not been included in the ROA and lease liability as it is unlikely that the lease will be extended.

### **Accounting policy applicable from 1 August 2019**

For any new contracts entered into on or after 1 August 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether;

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Leases are recognised as a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit and loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis. Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on a fixed index or a rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value, in a similar economic environment, with similar terms and conditions.

Short-term leases and those where the underlying asset is of low value are recognised as an expense on a straight line basis over the lease term.

### **Operating leases before 1 August 2019**

Lease payments for operating leases where substantially all the risk and benefits remain with the lessor are charged to the statement of profit and loss and other comprehensive income on a straight line basis over the lease term.

## **2.2 Accounting Standards issued but not yet effective and not early adopted**

Any new or amended Accounting Standard or Interpretations that are not yet mandatory have not been early adopted.

### **Other amending accounting standards**

Other amending accounting standards issued are not considered to have a significant impact on the financial statement of the Group as the amendments provide either clarification of existing accounting treatment or editorial amendments.



## Notes to the Financial Statements continued

**NOTE 3: Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Group's accounting policies, which are described in Note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

**Key sources of estimation uncertainty**

In addition to the key sources of estimation uncertainty on the going concern basis as disclosed in note 1, the following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**i) Useful life and impairment of intangible assets**

Management has assessed the useful life of intangibles on the following basis:

- Software – based on the licence or expected;
- Patents and Trademarks – based on the contractual life of the patent;
- Licensed distribution agreements – based on the term of the agreement or the expected Brand product life cycle; and
- Brand names – up to indefinite useful life based on the nature of the brand.

Whilst the current useful lives are management's best estimate, a periodic review is undertaken to ensure that these remain appropriate.

The Group tests annually for intangible assets with indefinite useful lives or when impairment indicators are identified, whether intangible assets have suffered any impairment, in accordance with the accounting policy. The recoverable amounts of the other intangible assets have been determined on a relief from royalty basis. These calculations require the use of assumptions. A significant change to the assumptions affects the recoverable amount of the other intangible assets.

**ii) Recoverability of inventory**

The Group periodically assesses whether the net realisable value (NRV) of its inventories is reasonable in light of changing market conditions within the retail sector and the Group's reassessment of brand portfolio. Whilst the Group has provided to recognise the best estimate for the amount for which its inventory will be realised, the final amounts will be subject to the prevailing market conditions and may differ from the amounts provided for.

**iii) Allowance for expected credit losses**

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss grouped based on days overdue and industry type and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

**iv) Taxation timing differences recognised as asset and deferral of tax liability**

The amount of deferred tax asset in respect of revenue tax losses is determined based upon expected future taxable income, and judgement as to the loss availability under the "continuity of ownership test", and where applicable the "similar business test". Based on the current assessment, determined using budget forecasts for FY2021, the Group has continued to not recognise an amount within the deferred tax asset or provision for deferred tax liability for temporary differences. Refer to Note 8 for details.

#### vi) Coronavirus (COVID-19) pandemic

In March 2020, the World Health Organisation declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout Australia. The spread of COVID-19 has caused significant volatility in Australia and International markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the Australia and international economies. The longer term impacts of COVID-19 on the operations of the Group remain uncertain and cannot be quantified at this time.

### NOTE 4: Segment information

Based on the reports reviewed by the Chief Executive Officer to make strategic and operating decisions, management has determined that the Group has one operating segment.

#### Geographical Information

The Group operates in one principal geographical area – Australia/NZ. The Group's revenue from external customers and information by geographical location is as follows:

|              | Revenue from External Customers |                      | Non-Current Assets   |                      |
|--------------|---------------------------------|----------------------|----------------------|----------------------|
|              | Year ended 31-Jul-20            | Year ended 31-Jul-19 | Year ended 31-Jul-20 | Year ended 31-Jul-19 |
|              | \$'000                          | \$'000               | \$'000               | \$'000               |
| Australia/NZ | 24,597                          | 29,959               | 868                  | 302                  |
|              | 24,597                          | 29,959               | 868                  | 302                  |

#### Information about major customers

Included in revenues of Australia/NZ of \$24,597,000 are revenues of approximately \$7,333,218 (2019: \$15,877,647), which arose from sales to the largest customer (2019: two largest customers).

#### Information about products and services

The Group generates all their revenue from the sale of consumer products (toys, sporting, confectionery, apparel and lifestyle products).

## Notes to the Financial Statements continued

**NOTE 5: Discontinued operations**

|   | Year ended<br>31 July 2020         | Year ended<br>31 July 2019         |
|---|------------------------------------|------------------------------------|
|   | \$'000                             | \$'000                             |
| <b>Results of discontinued operations</b>                                       |                                    |                                    |
| Revenue   | –                                  | –                                  |
| Expenses  | (108)                              | 90                                 |
| <b>Profit/(Loss) before tax</b>   | <b>(108)</b>                       | <b>90</b>                          |
| Attributable income tax expense   | –                                  | –                                  |
| <b>Result from operating activities, net of tax</b>                             | <b>(108)</b>                       | <b>90</b>                          |
| Comprising:   |                                    |                                    |
| Discontinued operation – USA  | (8)                                | 90                                 |
| Discontinued operation – Fun International Limited                              | (25)                               | –                                  |
| Discontinued operation – Fun Toy Products Consulting (Shenzhen) Company Limited | (75)                               | –                                  |
| <b>Profit/(Loss) for the year from discontinued operations</b>                  | <b>(108)</b>                       | <b>90</b>                          |
| Basic Profit/(Loss) per share (cents per share)                                 | (0.05)                             | 0.04                               |
| Diluted Profit/(Loss) per share (cents per share)                               | (0.05)                             | 0.04                               |
| <b>Cashflow used in discontinued operations</b>                                 | <b>Year ended<br/>31 July 2020</b> | <b>Year ended<br/>31 July 2019</b> |
|   | <b>\$'000</b>                      | <b>\$'000</b>                      |
| Net cash produced/(used) in operating activities                                | (108)                              | (14)                               |

**NOTE 6: Revenue**

|   | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|---|-------------------------|-------------------------|
|   | \$'000                  | \$'000                  |
| Gross revenue from the sale of goods        | 27,200                  | 33,538                  |
| Less settlement discounts and rebates       | (2,774)                 | (3,666)                 |
| <b>Total revenue from the sale of goods</b> | <b>24,426</b>           | <b>29,872</b>           |
| Other Revenue                               | 171                     | 87                      |
| <b>Total other revenue</b>                  | <b>171</b>              | <b>87</b>               |
| <b>Total revenue</b>                        | <b>24,597</b>           | <b>29,959</b>           |

## NOTE 7: Profit/(Loss) for the year

|  |      | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|--|------|-------------------------|-------------------------|
|  | Note | \$'000                  | \$'000                  |
| <b>Investment income</b>                             |      |                         |                         |
| Interest from bank deposits                          |      | 3                       | 1                       |
| <b>Total investment income</b>                       |      | <b>3</b>                | <b>1</b>                |
| <b>Other income</b>                                  |      |                         |                         |
| Government subsidies related to COVID-19             |      | 300                     | –                       |
| <b>Total other income</b>                            |      | <b>300</b>              | <b>–</b>                |
| Impairment of Intangible assets                      | 14   | –                       | 702                     |
| <b>Depreciation and amortisation expense</b>         |      |                         |                         |
| Depreciation of property, plant & equipment          | 13   | 31                      | 83                      |
| Depreciation of leasehold improvements               | 13   | –                       | 5                       |
| Depreciation of right of use assets                  | 12   | 232                     | –                       |
| Amortisation of other intangible assets              | 14   | 57                      | 311                     |
| <b>Total depreciation and amortisation expense</b>   |      | <b>320</b>              | <b>399</b>              |
| <b>Research expensed as incurred</b>                 |      | <b>50</b>               | <b>82</b>               |
| <b>Employee benefits expense</b>                     |      |                         |                         |
| Post-employment benefits:                            |      |                         |                         |
| Defined contribution plans (superannuation)          |      | 349                     | 418                     |
| Share-based payments:                                |      |                         |                         |
| Equity-settled share-based payments expense/(credit) |      | –                       | (119)                   |
| Termination benefits                                 |      | 175                     | 30                      |
| Other employee benefits                              |      | 4,087                   | 5,611                   |
| <b>Total employee benefits expense</b>               |      | <b>4,611</b>            | <b>5,940</b>            |

## Notes to the Financial Statements continued

**NOTE 8: Income tax**

|  | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|--|-------------------------|-------------------------|
|  | \$'000                  | \$'000                  |
| <b>(a) Income tax benefit/(expense) relating to continuing operations</b>                        |                         |                         |
| Tax expense comprises:   |                         |                         |
| Current tax benefit/(expense) in respect of the current year                                     | 2,121                   | (2,080)                 |
| Adjustments recognised in the current year in relation to the current tax expense of prior years | –                       | 96                      |
|  | <b>2,121</b>            | <b>(1,984)</b>          |
| Deferred tax expense comprises:  |                         |                         |
| Deferred tax (benefit) expense relating to the origination and reversal of temporary differences | (2,121)                 | 2,080                   |
| <b>Total tax benefit/(expense) relating to continuing operations</b>                             | <b>–</b>                | <b>96</b>               |
|  | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|  | \$'000                  | \$'000                  |
| <b>(b) Income tax recognised in profit or loss</b>   |                         |                         |
| The expense for the year can be reconciled to the accounting profit as follows:                  |                         |                         |
| Profit/(Loss) from continuing operations   | (9,205)                 | 7,602                   |
| Tax expense/(benefit) at the Australian tax rate of 27.5% (FY19 27.5%)                           | (2,531)                 | 2,091                   |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:          |                         |                         |
| Expenses that are not deductible in determining taxable loss                                     | 7                       | 247                     |
| Effect of current year's unrecognised and unused tax losses                                      | 2,494                   | 2,165                   |
| Effect of different tax rates of subsidiaries operating in other jurisdictions                   | 30                      | –                       |
| Non-Assessable Commercial Debt Forgiveness   | –                       | (4,407)                 |
| <b>Income tax expense recognised in profit or loss</b>   | <b>–</b>                | <b>96</b>               |
|  | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|  | \$'000                  | \$'000                  |
| <b>(c) Income tax recognised directly in equity</b>  |                         |                         |
| Deferred Tax:  | –                       | –                       |
| <b>Relating to share issue expenses deductible over 5 years</b>                                  | <b>–</b>                | <b>–</b>                |
|  | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|  | \$'000                  | \$'000                  |
| <b>(d) Current tax balances</b>  |                         |                         |
| <b>Current tax liabilities and assets</b>  |                         |                         |
| Income tax (payable)/receivable  | –                       | –                       |
| Other – overseas subsidiaries  | –                       | 19                      |

## (e) Deferred tax balances

No movements in deferred tax balances were recognised in the financial year 2020 (2019: \$0).

| <b>The following deferred tax assets relating to tax losses have not been brought to account as assets:</b> | <b>Year ended<br/>31-Jul-20</b> | <b>Restated <sup>(i)</sup><br/>Year ended<br/>31-Jul-19</b> | <b>Year ended<br/>31-Jul-19</b> |
|---|---------------------------------|---|---------------------------------|
|   | <b>\$'000</b>                   | <b>\$'000</b>   | <b>\$'000</b>                   |
| Tax losses – Revenue (gross)  | <b>62,475</b>                   | 54,762  | 54,841                          |
| Tax losses – Capital (gross)  | <b>7,004</b>                    | 7,004   | 7,004                           |
|   | <b>69,479</b>                   | <b>61,766</b>   | <b>61,845</b>                   |

(i) Restated to reconcile with FY19 income tax return lodged 28 April 2020.

## Unrecognised taxable temporary differences associated with investments and interests in subsidiaries

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

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

## Tax consolidation

### (i) Relevance of tax consolidation to the Group

The Company and its wholly owned Australian resident entities formed a tax-consolidated Group with effect from 1 January 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated Group is Funtastic Limited. The members of the tax-consolidated Group are identified in Note 24.

### (ii) Nature of tax funding arrangement and tax sharing agreement

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

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

## Tax Losses and temporary differences

As at 31 July 2020 the Group has carried forward revenue tax losses of approximately \$62,474,699 (2019: \$54,840,827) and capital tax losses of approximately \$7,004,253. As at 31 July 2020 a deferred tax asset of \$nil (2019: \$nil) has been booked relating to revenue tax losses and deferred assets relating to temporary differences of \$nil (2019: \$nil). The Company has made losses in previous reporting periods. Following the assessment of the probability of recovery, having considered forecast future taxable income and current tax legislation with respect to carrying forward tax losses and temporary differences, the full balance of tax losses available at 31 July 2020 of \$69,478,952 has not been booked as a deferred tax asset in these financial statements.

## Notes to the Financial Statements continued

**NOTE 9: Current assets – Trade and other receivables**

|  | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|--|-------------------------|-------------------------|
|  | \$'000                  | \$'000                  |
| <b>Current Receivables</b>                                 |                         |                         |
| Trade receivables  | 4,671                   | 6,189                   |
| Allowance for impairment                                   | (1,915)                 | (1,863)                 |
| Allowance for credit notes, rebates & settlement discounts | (947)                   | (866)                   |
| <b>Total Current Receivables</b>                           | <b>1,809</b>            | <b>3,460</b>            |

The Group does not hold any collateral over these balances. The Group's trade and other receivables have been reviewed for indicators of impairment and include an allowance for expected credit losses as described in note 3 (iii).

**Movement in Provision for Impairment**

|                                     | Provision for<br>Impairment | Rebates,<br>credit notes<br>&<br>settlement<br>discount | Total          |
|-------------------------------------|-----------------------------|---|----------------|
|                                     | \$'000                      | \$'000  | \$'000         |
| <b>12 months ended 31 July 2020</b> |                             |   |                |
| Balance at beginning of period      | (1,863)                     | (866)   | (2,729)        |
| Provisions raised                   | (51)                        | (2,774)   | (2,825)        |
| Utilised                            | (1)                         | 2,693   | 2,692          |
| <b>Balance at end of the period</b> | <b>(1,915)</b>              | <b>(947)</b>  | <b>(2,862)</b> |
| <b>12 months ended 31 July 2019</b> |                             |   |                |
| Balance at beginning of period      | (1,898)                     | (543)   | (2,441)        |
| Provisions raised                   | (17)                        | (3,666)   | (3,683)        |
| Utilised                            | 52                          | 3,343   | 3,395          |
| <b>Balance at end of the period</b> | <b>(1,863)</b>              | <b>(866)</b>  | <b>(2,729)</b> |

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

**NOTE 10: Current assets – Inventories**

|                                      | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|--------------------------------------|-------------------------|-------------------------|
|                                      | \$'000                  | \$'000                  |
| Stock at cost                        | 2,277                   | 6,346                   |
| Obsolescence provision               | (904)                   | (1,309)                 |
| <b>Stock at Net Realisable Value</b> | <b>1,373</b>            | <b>5,037</b>            |



## NOTE 11: Other assets

|                                 | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|---------------------------------|-------------------------|-------------------------|
|                                 | \$'000                  | \$'000                  |
| <b>Current other assets</b>     |                         |                         |
| Prepaid royalties               | 114                     | 213                     |
| Prepayments                     | 68                      | 456                     |
| Prepaid inventory               | 408                     | 747                     |
| Currency hedge at fair value    | –                       | 138                     |
|                                 | <b>590</b>              | <b>1,554</b>            |
| <b>Other non-current assets</b> |                         |                         |
| Bonds and deposits              | 50                      | 50                      |
|                                 | <b>50</b>               | <b>50</b>               |

## NOTE 12: Right of use assets

|   | Property<br>31-Jul-20 | Equipment<br>Hire<br>31-Jul-20 | Total<br>31-Jul-20 |
|---|-----------------------|--------------------------------|--------------------|
|   | \$'000                | \$'000                         | \$'000             |
| Right of Use Assets – at cost                                 | 904                   | 20                             | 924                |
| Less: accumulated depreciation                                | (223)                 | (10)                           | (233)              |
|   | <b>681</b>            | <b>10</b>                      | <b>691</b>         |
| <b>Reconciliation</b>   |                       |                                |                    |
| Opening Balance at 1/8/2019 (upon adoption of AASB 16 Leases) | 904                   | 20                             | 924                |
| Depreciation  | (223)                 | (10)                           | (233)              |
|   | <b>681</b>            | <b>10</b>                      | <b>691</b>         |

## Notes to the Financial Statements continued

**NOTE 13: Non-current assets – Plant and equipment**

|                                | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|--------------------------------|-------------------------|-------------------------|
|                                | \$'000                  | \$'000                  |
| Plant and equipment – at cost  | 1,182                   | 1,185                   |
| Less: accumulated depreciation | (1,157)                 | (1,145)                 |
|                                | <b>25</b>               | <b>40</b>               |

**Reconciliations**

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

|                           | 2020          |                     |                 | 2019          |                     |                 |
|---------------------------|---------------|---------------------|-----------------|---------------|---------------------|-----------------|
|                           | P&E<br>\$'000 | Leasehold<br>\$'000 | Total<br>\$'000 | P&E<br>\$'000 | Leasehold<br>\$'000 | Total<br>\$'000 |
| <b>12 months ended</b>    |               |                     |                 |               |                     |                 |
| Cost                      |               |                     |                 |               |                     |                 |
| Opening Balance           | 40            | –                   | 40              | 142           | 14                  | 156             |
| Additions                 | 35            | –                   | 35              | 5             | –                   | 5               |
| Disposals                 | (19)          | –                   | (19)            | (24)          | (9)                 | (33)            |
| Depreciation/Amortisation | (31)          | –                   | (31)            | (83)          | (5)                 | (88)            |
| <b>Closing Balance</b>    | <b>25</b>     | <b>–</b>            | <b>25</b>       | <b>40</b>     | <b>–</b>            | <b>40</b>       |

**NOTE 14: Non-current assets – Other intangibles**

|  | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|--|-------------------------|-------------------------|
|  | \$'000                  | \$'000                  |
| Brand names  | 1,015                   | 1,015                   |
| Accumulated amortisation and impairment                                | (1,015)                 | (1,015)                 |
|  | –                       | –                       |
| Software costs   | 2,841                   | 2,935                   |
| Accumulated amortisation and impairment                                | (2,840)                 | (2,849)                 |
|  | <b>1</b>                | <b>86</b>               |
| Chill Factor – Trademarks and patents                                  | 10,495                  | 10,495                  |
| Accumulated amortisation and impairment                                | (10,394)                | (10,369)                |
|  | 101                     | 126                     |
| Licenses, trademarks, distribution agreements & supplier relationships | 11,164                  | 11,164                  |
| Accumulated amortisation and impairment                                | (11,164)                | (11,164)                |
|  | –                       | –                       |
|  | <b>102</b>              | <b>212</b>              |

## Reconciliations

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

| 2020                      | Brand Names | Software | Chill Factor Trademarks and Patents | Other Licences and Trademarks | Total      |
|---------------------------|-------------|----------|-------------------------------------|-------------------------------|------------|
|                           | \$'000      | \$'000   | \$'000                              | \$'000                        | \$'000     |
| Opening Balance           | –           | 86       | 126                                 | –                             | 212        |
| Additions                 | –           | 41       | –                                   | –                             | 41         |
| Disposals                 | –           | (94)     | –                                   | –                             | (94)       |
| Depreciation/Amortisation | –           | (32)     | (25)                                | –                             | (57)       |
| <b>Closing Balance</b>    | <b>–</b>    | <b>1</b> | <b>101</b>                          | <b>–</b>                      | <b>102</b> |

| 2019                      | Brand Names | Software  | Chill Factor Trademarks and Patents | Other Licences and Trademarks | Total      |
|---------------------------|-------------|-----------|-------------------------------------|-------------------------------|------------|
|                           | \$'000      | \$'000    | \$'000                              | \$'000                        | \$'000     |
| Opening Balance           | –           | 279       | 173                                 | 524                           | 976        |
| Additions                 | –           | 69        | 72                                  | 240                           | 381        |
| Disposals                 | –           | (132)     | –                                   | –                             | (132)      |
| Depreciation/Amortisation | –           | (130)     | (45)                                | (136)                         | (311)      |
| Impairment                | –           | –         | (74)                                | (628)                         | (702)      |
| <b>Closing Balance</b>    | <b>–</b>    | <b>86</b> | <b>126</b>                          | <b>–</b>                      | <b>212</b> |

As the carrying value of the intangible assets could not be supported by the after-tax royalty stream of the brand, AASB 136 required performance of an impairment assessment of the intangible assets. This has been performed, based on the royalty relief method by applying a market related royalty rate to the expected future sales and terminal growth rate, which is a level three valuation in the fair value hierarchy.

Projected sales were calculated based on the approved FY2021 budget and management's view of longer-term performance expectations. The estimated product life cycle was included in the calculation.

### Outcome of assessment

A re-assessment of future performance expectations resulted in an impairment charge of \$nil to the intangibles. (2019: \$702,000).

## NOTE 15: Assets pledged as security

In accordance with the security arrangements of liabilities as disclosed in Note 16 to the financial statements, all assets of the Group have been pledged as security. The Group does not have the right to sell or re-pledge the assets.

## Notes to the Financial Statements continued

**NOTE 16: Borrowings**

|                                    | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|------------------------------------|-------------------------|-------------------------|
| <b>Secured – at amortised cost</b> | <b>\$'000</b>           | <b>\$'000</b>           |
| <b>Current</b>                     |                         |                         |
| Debtor finance                     | 478                     | 1,657                   |
| <b>Total Current</b>               | <b>478</b>              | <b>1,657</b>            |
| <b>Non-current</b>                 |                         |                         |
| Interest bearing liabilities       | 8,428                   | 3,676                   |
| <b>Total Non-current</b>           | <b>8,428</b>            | <b>3,676</b>            |

During the year the Group renewed its debtor factoring facilities with Scottish Pacific. The Group continues to have a bank guarantee to the value of \$155,863 from Scottish Pacific for the purposes of securing its office lease.

On the 15 March 2019, the Group entered into a secured loan agreement with Jaszac to provide funding to the Company of an amount up to AUD \$6 million for the purpose of general working capital. On 14 January 2020 the secured loan agreement was amended to increase the maximum loan amount up to \$12.195 million. As at 31 July 2020 the available loan limit as per the loan agreement was \$10.375 million. Interest in the amount of 12% per annum is payable on the final repayment date and security comprises a general security deed between Funtastic and Jaszac entitling Jaszac to a secured interest over Funtastic. The repayment date is 31 December 2023.

**NOTE 17: Provisions**

|                                    | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|------------------------------------|-------------------------|-------------------------|
| <b>Secured – at amortised cost</b> | <b>\$'000</b>           | <b>\$'000</b>           |
| <b>Current</b>                     |                         |                         |
| Employee benefits <sup>(i)</sup>   | 241                     | 469                     |
| <b>Total Current</b>               | <b>241</b>              | <b>469</b>              |
| <b>Non-current</b>                 |                         |                         |
| Employee benefits <sup>(i)</sup>   | 13                      | 21                      |
| <b>Total Non-Current</b>           | <b>13</b>               | <b>21</b>               |
| <b>Total</b>                       | <b>254</b>              | <b>490</b>              |

(i) The provision for employee benefits represents annual leave and long service leave entitlements accrued.

## NOTE 18: Lease liabilities

|                               | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|-------------------------------|-------------------------|-------------------------|
|                               | \$'000                  | \$'000                  |
| Current Lease Liabilities     | 211                     | –                       |
| Non-current Lease Liabilities | 535                     | –                       |
|                               | 746                     | –                       |

## Maturity analysis

|   | Within<br>1 year | 1-2 years  | 2-3 years  | 3-4 years | 4-5 years | After<br>5 years | Total      |
|---|------------------|------------|------------|-----------|-----------|------------------|------------|
|   | \$'000           | \$'000     | \$'000     | \$'000    | \$'000    | \$'000           | \$'000     |
| Lease payments                          | 289              | 287        | 296        | 25        | –         | –                | 897        |
| Finance charge                          | (78)             | (52)       | (21)       | –         | –         | –                | (151)      |
| <b>Discounted<br/>Lease Liabilities</b> | <b>211</b>       | <b>235</b> | <b>275</b> | <b>25</b> | <b>–</b>  | <b>–</b>         | <b>746</b> |

## NOTE 19: Other liabilities

|                        | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|------------------------|-------------------------|-------------------------|
|                        | \$'000                  | \$'000                  |
| <b>Current</b>         |                         |                         |
| Accrued royalties      | 177                     | 358                     |
| GST payable            | 37                      | 8                       |
| Payroll accruals       | 73                      | 53                      |
| Currency hedges        | 38                      | –                       |
| Other accrued expenses | 2,086                   | 675                     |
| <b>Total Current</b>   | <b>2,411</b>            | <b>1,094</b>            |

## Notes to the Financial Statements continued

**NOTE 20: Equity**

| Share Capital  | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|--|-------------------------|-------------------------|
|  | \$'000                  | \$'000                  |
| 240,404,075 fully paid ordinary shares (2019: 233,176,894) | 225,166                 | 224,848                 |

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of members' shares held. At members' meetings, each fully paid ordinary share is entitled to vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

|  | 31-Jul-20           |                            | 31-Jul-19           |                            |
|--|---------------------|----------------------------|---------------------|----------------------------|
|  | Number of<br>Shares | Share<br>Capital<br>\$'000 | Number of<br>Shares | Share<br>Capital<br>\$'000 |
| <b>Movements in Ordinary Share Capital</b> |                     |                            |                     |                            |
| Opening balance                            | 233,176,894         | 224,848                    | 96,025,827          | 217,400                    |
| Placement offer 13 September 2018          | –                   | –                          | 20,562,620          | 1,116                      |
| Entitlement offer 9 October 2018           | –                   | –                          | 116,588,447         | 6,332                      |
| Share Purchase Plan 19 December 2019       | 5,583,345           | 113                        | –                   | –                          |
| Conversion of Service Rights 18 June 2020  | 1,643,836           | 205                        | –                   | –                          |
| <b>Closing balance</b>                     | <b>240,404,075</b>  | <b>225,166</b>             | <b>233,176,894</b>  | <b>224,848</b>             |

**Foreign currency translation reserve**

The foreign translation reserve account accumulates exchange differences arising on translation of foreign controlled entities which are recognised in other comprehensive income. The carrying amount is reclassified to profit or loss when the net investment is disposed of.

**Equity settled employee benefits reserve**

Movements in the reserve are detailed in the statement of changes in equity. The reserve records amount for the fair value of options granted and recognised as an employee benefits expense but not exercised.

## NOTE 21: Earnings per share

|   | 31-Jul-20       | 31-Jul-19       |
|---|-----------------|-----------------|
|   | Cents per share | Cents per share |
| <b>Basic profit/(loss) per share</b>  |                 |                 |
| From continuing operations  | (3.89)          | 3.60            |
| From discontinued operations  | (0.05)          | 0.04            |
| <b>Total Earnings per share</b>   | <b>(3.94)</b>   | <b>3.64</b>     |
| <b>Diluted profit/(loss) per share</b>  |                 |                 |
| From continuing operations  | (3.89)          | 3.57            |
| From discontinued operations  | (0.05)          | 0.04            |
| <b>Total profit/(loss) per share</b>  | <b>(3.94)</b>   | <b>3.61</b>     |
| <b>Basic earnings per share calculation:</b>  | <b>\$'000</b>   | <b>\$'000</b>   |
| Net profit/(loss) after tax for the year – continuing operations  | (9,205)         | 7,506           |
| Net profit/(loss) after tax for the year – discontinued operations  | (108)           | 90              |
| <b>Profit/(Loss) used in the calculation of total basic EPS</b>   | <b>(9,313)</b>  | <b>7,596</b>    |
|   | <b>No. '000</b> | <b>No. '000</b> |
| Weighted average number of ordinary shares outstanding during the year used in the calculation of basic profit/(loss) per share                   | 236,802         | 208,339         |
| <b>Diluted earnings per share calculation:</b>  |                 |                 |
| Weighted average number of ordinary shares outstanding during the year used in the calculation of basic profit/(loss) per share                   | 236,802         | 208,339         |
| Add: Shares deemed to be issued for no consideration in respect of:   |                 |                 |
| Performance and service rights  | –               | 1,644           |
| <b>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</b> | <b>236,802</b>  | <b>209,983</b>  |

## NOTE 22: Dividends on equity instruments

There were no dividends declared or paid during the financial year (2019: nil). The franking account balance at 31 July 2020 is \$19,301,903 (2019: \$19,301,903).



## Notes to the Financial Statements continued

**NOTE 23: License guarantee commitments**

Under the terms of various License Agreements, the Company guarantees the minimum level of license payments. The commitment in relation to these guarantees not already recognised is as follows:

|  | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|--|-------------------------|-------------------------|
|  | \$'000                  | \$'000                  |
| Not later than one year                          | 75                      | 1,911                   |
| Later than one year but not later than two years | 10                      | 1,309                   |
|  | <b>85</b>               | <b>3,220</b>            |

**NOTE 24: Subsidiaries**

| Name of Entity  | Country of Incorporation | Equity Holding          |                         |
|---|--------------------------|-------------------------|-------------------------|
|   |                          | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|   |                          | %                       | %                       |
| <b>Company</b>  |                          |                         |                         |
| Funtastic Limited <sup>(i), (iii)</sup>                         | Australia                | 100                     | 100                     |
| <b>Subsidiaries</b>   |                          |                         |                         |
| Fun International Limited                                       | Hong Kong                | 100                     | 100                     |
| Funtastic America Inc. (formerly My Paint Box Inc.)             | USA                      | 100                     | 100                     |
| NSR (HK) Limited <sup>(iii)</sup>                               | Hong Kong                | 100                     | 100                     |
| Safety Products International Pty Limited <sup>(ii), (iv)</sup> | Australia                | –                       | 100                     |
| Chill Factor Global Pty Limited <sup>(ii), (iii)</sup>          | Australia                | 100                     | 100                     |
| Fun Toy Products Consulting (Shenzhen) Company Limited          | China                    | 100                     | 100                     |

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

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

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

(iv) This company was deregistered on 28 August 2019.

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

|  | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|--|-------------------------|-------------------------|
|  | \$'000                  | \$'000                  |
| Revenue  | 24,597                  | 29,959                  |
| Cost of Goods Sold   | (21,067)                | (25,054)                |
| <b>Gross profit</b>  | <b>3,530</b>            | <b>4,905</b>            |
| Investment Income  | 3                       | 1                       |
| Other Income   | 300                     | –                       |
| Warehouse and Distribution Expenses  | (2,205)                 | (2,310)                 |
| Marketing and Selling Expenses   | (1,027)                 | (599)                   |
| Administration Expenses  | (3,723)                 | (1,776)                 |
| Staff Expenses   | (4,611)                 | (5,794)                 |
| Bank Forgiveness   | –                       | 15,710                  |
| Impairment of Goodwill and Intangible Assets   | –                       | (702)                   |
| <b>Earnings before interest, taxation, amortisation and depreciation (EBITDA)</b>              | <b>(7,733)</b>          | <b>9,435</b>            |
| Finance Costs  | (1,152)                 | (703)                   |
| Depreciation Expenses  | (263)                   | (88)                    |
| Amortisation Expenses  | (57)                    | (311)                   |
| <b>Profit/(Loss) before income tax</b>   | <b>(9,205)</b>          | <b>8,333</b>            |
| Income tax (expense)/benefit   | –                       | –                       |
| <b>Profit/(Loss) for the period from continuing operations</b>                                 | <b>(9,205)</b>          | <b>8,333</b>            |
| <b>Discontinued operations</b>   |                         |                         |
| Profit/(Loss) from Discontinued Operations   | –                       | –                       |
| <b>Profit/(Loss) for the year</b>  | <b>(9,205)</b>          | <b>8,333</b>            |
| <b>Other comprehensive income (net of tax)</b>   |                         |                         |
| Items that may be reclassified subsequently to profit or loss:                                 |                         |                         |
| Gain on cash flow hedges taken to equity   | –                       | –                       |
| <b>Other comprehensive income/(loss) for the year (net of tax)</b>                             | <b>–</b>                | <b>–</b>                |
| <b>Total comprehensive income/(loss) for the year attributable to the members of Funtastic</b> | <b>(9,205)</b>          | <b>8,333</b>            |

## Notes to the Financial Statements continued

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

|   | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|---|-------------------------|-------------------------|
|   | \$'000                  | \$'000                  |
| <b>Current Assets</b>                                 |                         |                         |
| Cash  | 354                     | 396                     |
| Receivables   | 1,809                   | 3,476                   |
| Inventories   | 1,373                   | 5,037                   |
| Other Assets  | 586                     | 1,604                   |
| <b>Total Current Assets</b>                           | <b>4,122</b>            | <b>10,513</b>           |
| <b>Non-Current Assets</b>                             |                         |                         |
| Property, Plant and Equipment                         | 25                      | 40                      |
| Other Intangibles                                     | 102                     | 212                     |
| Right of Use Assets                                   | 691                     | –                       |
| Other Assets  | 20,673                  | 21,451                  |
| <b>Total Non-Current Assets</b>                       | <b>21,491</b>           | <b>21,703</b>           |
| <b>Total Assets</b>                                   | <b>25,613</b>           | <b>32,216</b>           |
| <b>Current Liabilities</b>                            |                         |                         |
| Payables  | 1,325                   | 4,229                   |
| Interest Bearing Liabilities (excluding Bill Finance) | 478                     | 1,657                   |
| Provisions  | 241                     | 483                     |
| Lease Liabilities                                     | 211                     | –                       |
| Other Liabilities                                     | 2,371                   | 1,064                   |
| <b>Total Current Liabilities</b>                      | <b>4,626</b>            | <b>7,433</b>            |
| <b>Non-Current Liabilities</b>                        |                         |                         |
| Interest Bearing Liabilities                          | 8,428                   | 3,676                   |
| Provisions  | 13                      | –                       |
| Lease Liabilities                                     | 535                     | –                       |
| <b>Total Non-Current Liabilities</b>                  | <b>8,976</b>            | <b>3,676</b>            |
| <b>Total Liabilities</b>                              | <b>13,602</b>           | <b>11,109</b>           |
| <b>Net Assets</b>                                     | <b>12,011</b>           | <b>21,107</b>           |
| <b>Equity</b>   |                         |                         |
| Issued capital  | 225,160                 | 224,838                 |
| Accumulated Losses                                    | (213,149)               | (203,936)               |
| Reserves  | –                       | 205                     |
| <b>Total Equity</b>                                   | <b>12,011</b>           | <b>21,107</b>           |

## NOTE 25: Notes to the cash flow statements

### a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the Statement of Financial Position as follows:

|                  | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|------------------|-------------------------|-------------------------|
|                  | \$'000                  | \$'000                  |
| Cash             | –                       | –                       |
| Cash equivalents | 367                     | 465                     |
|                  | <b>367</b>              | <b>465</b>              |

### b) Financing facilities

|   | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|---|-------------------------|-------------------------|
|   | \$'000                  | \$'000                  |
| <b>Total Financing Facilities</b>           |                         |                         |
| Bank Guarantees                             | 156                     | 156                     |
| Debtor finance                              | 11,776                  | 9,844                   |
| Loan  | 10,375                  | 6,000                   |
|   | <b>22,307</b>           | <b>16,000</b>           |
| <b>Reconciliation of Finance facilities</b> |                         |                         |
| Used at Balance Date                        |                         |                         |
| Bank Guarantees                             | 156                     | 156                     |
| Debtor finance                              | 478                     | 1,657                   |
| Loan  | 8,428                   | 3,676                   |
|   | <b>9,062</b>            | <b>5,489</b>            |
| Unused at Balance Date                      |                         |                         |
| Bank Guarantees                             | –                       | –                       |
| Debtor finance                              | 11,298                  | 8,187                   |
| Loan  | 1,947                   | 2,324                   |
|   | <b>13,245</b>           | <b>10,511</b>           |

## Notes to the Financial Statements continued

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

|  | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|--|-------------------------|-------------------------|
|  | \$'000                  | \$'000                  |
| Operating Profit/(Loss) after income tax   | (9,313)                 | 7,596                   |
| Income tax expense/(benefit) recognised in profit or loss  | –                       | 96                      |
| Impairment   | –                       | 702                     |
| Amortisation   | 57                      | 311                     |
| Depreciation   | 263                     | 88                      |
| Loss on assets disposed  | 114                     | 173                     |
| Share options (benefit)/expense  | –                       | (119)                   |
| Other revenue  | (41)                    | 590                     |
| Unrealised FX loss on revaluation of intercompany loans  | 924                     | (1,018)                 |
| Finance costs  | 811                     | 141                     |
| Bank Forgiveness   | –                       | (15,710)                |
| Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses: |                         |                         |
| (Increase)/Decrease in trade and other receivables   | 1,651                   | (873)                   |
| (Increase)/Decrease in inventories   | 3,663                   | (18)                    |
| (Increase)/Decrease in prepayments and other assets  | 964                     | (111)                   |
| (Decrease)/Increase in trade creditors   | (2,916)                 | 467                     |
| (Decrease) in provisions   | (236)                   | –                       |
| (Decrease)/increase in other liabilities   | 1,318                   | (374)                   |
| Cash (utilised) generated from operations  | (2,741)                 | (8,059)                 |
| Income tax received/(paid)   | 19                      | 29                      |
| Net cash outflow from operating activities   | (2,722)                 | (8,030)                 |

**NOTE 26: Financial instruments****Capital risk management**

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

The capital structure of the Group consists of debt, which comprises the borrowings detailed in Note 16, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, accumulated losses and reserves as disclosed in the Statement of Changes in Equity.

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

## Significant accounting policies

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements. These policies were consistent throughout the current year and the previous year.

|   | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|---|-------------------------|-------------------------|
| Categories of financial instruments               | \$'000                  | \$'000                  |
| Financial assets                                  |                         |                         |
| Cash and cash equivalents                         | 367                     | 465                     |
| Trade and other receivables                       | 1,809                   | 3,460                   |
| <b>Non-derivative financial assets</b>            | <b>2,176</b>            | <b>3,925</b>            |
| <b>Financial liabilities</b>                      |                         |                         |
| Non-interest bearing                              | 1,325                   | 4,241                   |
| Other liabilities                                 | 2,263                   | 1,033                   |
| <b>Total non-derivative financial liabilities</b> | <b>3,588</b>            | <b>5,274</b>            |
| Variable interest rate instruments                | 481                     | 1,677                   |
| Fixed interest rate instruments                   | 12,702                  | 6,250                   |
| <b>Total derivative financial liabilities</b>     | <b>13,183</b>           | <b>7,927</b>            |
| <b>Total financial liabilities</b>                | <b>16,771</b>           | <b>13,201</b>           |

## Financial risk management objectives

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

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

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

## Market risk

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

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

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

In 2020, while there has been a recent stabilisation of low variable interest rates there has been no material change to the Group's exposure to market risk or the manner in which it manages and measures the risk.

## Notes to the Financial Statements continued

**Foreign currency risk management**

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

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

|                   | Liabilities |        | Assets |        |
|-------------------|-------------|--------|--------|--------|
|                   | 2020        | 2019   | 2020   | 2019   |
|                   | \$'000      | \$'000 | \$'000 | \$'000 |
| US Dollars        | 353         | 1,702  | 557    | 1,835  |
| Hong Kong Dollars | –           | 16     | 14     | –      |

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rates fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the Group's functional currency. This is measured using sensitivity and cash flow forecasting.

In order to protect against exchange rate movements, the Group has entered into forward foreign exchange contracts. Management hedges between 50% and 100% of anticipated foreign currency transaction for the subsequent six months.

**Foreign currency sensitivity**

The Group is mainly exposed to the US dollar and the HK dollar. The following table details the Group's sensitivity to a 5% increase and 5% decrease in the Australian dollar against the relevant foreign currencies. 5% is the sensitivity rate which represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. A positive number indicates an increase in profit or loss where the Australian dollar strengthens against the respective currency. For a weakening of the Australian dollar against the respective currency there would be an equal and opposite impact on profit or loss and the balances below would be equal and opposite. A positive number indicates an increase in other equity where the Australian dollar weakens against the respective currency. For a strengthening of the Australian dollar against the respective currency there would be an equal and opposite impact on other equity and the balances below would be negative.

|   | USD Impact |        |
|---|------------|--------|
|   | 2020       | 2019   |
|   | \$'000     | \$'000 |
| 5% increase in AUD against foreign currency |            |        |
| Profit or Loss <sup>(i)</sup>               | 10         | (7)    |
| 5% decrease in AUD against foreign currency |            |        |
| Profit or Loss <sup>(i)</sup>               | (10)       | 7      |

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

**Forward foreign exchange contracts**

At balance date, there were foreign exchange contracts outstanding with an equivalent AUD value of \$1,145,311 (2019: asset of \$3,439,577).

During the year ended 31 July 2020 a loss on hedging instruments for the Group of \$38,000 (31 July 2019: gain \$30,000) has been brought to account.



## Interest rate risk management

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

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

### Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates to the Group at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The Group considers the likelihood of a 25-basis point increase or a 25-basis point decrease to be reasonable when reporting interest rate risk internally to key management personnel, as this represents management's best estimate of the possible change in interest rates.

|   | Interest Impact |        |
|---|-----------------|--------|
|   | 2020            | 2019   |
|   | \$'000          | \$'000 |
| 25-basis point increase in Interest rates |                 |        |
| Profit or Loss <sup>(i)</sup>             | (22)            | (4)    |
| 25-basis point decrease in Interest rates |                 |        |
| Profit or Loss <sup>(i)</sup>             | 22              | 4      |

(i) This is mainly due to the Group's exposure to interest rates on its variable rate borrowings.

## Loans of the Groups

Loans of the Group currently bear an average variable interest rate of 7.14% (2019: 7.35%) and a fixed interest rate of 12.0%. It is the Group's policy to protect part of the loans from exposure to increasing interest rates. However, due to the current low risk to interest rate increases, the Group has not currently purchased any swaps.

## Credit risk management

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

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

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

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

## Liquidity risk management

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

## Notes to the Financial Statements continued

**Liquidity and interest tables – financial liabilities**

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

|                                    | Weighted average effective interest rate % | Less than 1 month | 1 – 3 months | 3 months to 1 year | 1 – 5 years | 5+ years | Total  |
|------------------------------------|--|-------------------|--------------|--------------------|-------------|----------|--------|
|                                    |  | \$'000            | \$'000       | \$'000             | \$'000      | \$'000   | \$'000 |
| <b>2020</b>                        |  |                   |              |                    |             |          |        |
| Non-interest bearing               | –  | 711               | 614          | –                  | –           | –        | 1,325  |
| Other liabilities                  | –  | 2,263             | –            | –                  | –           | –        | 2,263  |
| Variable interest rate instruments | 7.20%                                      | –                 | 481          | –                  | –           | –        | 481    |
| Fixed interest rate instruments    | 12.00%                                     | –                 | –            | –                  | 12,702      | –        | 12,702 |
|                                    |  | 2,974             | 1,095        | –                  | 12,702      | –        | 16,771 |
| <b>2019</b>                        |  |                   |              |                    |             |          |        |
| Non-interest bearing               | –  | 2,123             | 2,118        | –                  | –           | –        | 4,241  |
| Other liabilities                  | –  | 1,033             | –            | –                  | –           | –        | 1,033  |
| Variable interest rate instruments | 7.35%                                      | –                 | 1,677        | –                  | –           | –        | 1,677  |
| Fixed interest rate instruments    | 12.00%                                     | –                 | –            | –                  | 6,250       | –        | 6,250  |
|                                    |  | 3,156             | 3,795        | –                  | 6,250       | –        | 13,201 |

**Liquidity and interest tables – financial assets**

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

|                      | Weighted average effective interest rate % | Less than 1 month | 1 – 3 months | 3 months to 1 year | 1 – 5 years | 5+ years | Total  |
|----------------------|--|-------------------|--------------|--------------------|-------------|----------|--------|
|                      |  | \$'000            | \$'000       | \$'000             | \$'000      | \$'000   | \$'000 |
| <b>2020</b>          |  |                   |              |                    |             |          |        |
| Cash                 | 0.00%                                      | 367               | –            | –                  | –           | –        | 367    |
| Non-interest bearing | –  | 329               | 1,480        | –                  | –           | –        | 1,809  |
|                      |  | 696               | 1,480        | –                  | –           | –        | 2,176  |
| <b>2019</b>          |  |                   |              |                    |             |          |        |
| Cash                 | 0.00%                                      | 465               | –            | –                  | –           | –        | 465    |
| Non-interest bearing | –  | 1,485             | 1,975        | –                  | –           | –        | 3,460  |
|                      |  | 1,950             | 1,975        | –                  | –           | –        | 3,925  |

## Fair value of financial instruments

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

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

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

## Fair value measurements recognised in the consolidated statement of financial position

Fair value measurements are discussed in Note 1 and in the notes specific to that asset or liability.

## NOTE 27: Share-based payments

### Unlisted Share Options

As at 31 July 2020, there were no unlisted share option balances outstanding. No options were granted under the plan during the current financial year or preceding financial year.

### Performance rights and service rights

#### Performance rights

As at 31 July 2020, there were no unlisted performance right balances outstanding. No performance rights were granted under the plan during the current financial year.

#### Service rights

Under the terms of his employment contract Mr Steven Leighton received a one-off grant on 26 October 2017 of 1,643,836 service rights as a sacrifice of \$205,479.45 of Mr Leighton's cash salary (fair value at the grant date of \$0.125 (12.5 cents) per share).

The service rights vested on 31 October 2018 as Mr Leighton met the service condition of being in continuous employment with Funtastic from the commencement of his employment until the vesting date (the Service Condition). The service rights expire on 31 December 2021 and Mr Leighton exercised these rights on 18 June 2020 into fully paid ordinary shares.

#### Rights outstanding at the end of the financial year

|                    | Grant date | Vesting Date | Expiry date | Exercise price | Fair value at grant date | Balance at end of Financial year |
|--------------------|------------|--------------|-------------|----------------|--------------------------|----------------------------------|
| <b>2020</b>        |            |              |             |                |                          |                                  |
| Service Rights     | 26/10/2017 | 31/10/2018   | 31/12/2021  | \$0.0000       | \$0.1250                 | –                                |
| <b>2019</b>        |            |              |             |                |                          |                                  |
| Service Rights     | 26/10/2017 | 31/10/2018   | 31/12/2021  | \$0.0000       | \$0.1250                 | 1,643,836                        |
| Performance Rights | 26/10/2017 | 31/10/2018   | 31/12/2021  | \$0.0000       | \$0.1250                 | –                                |

## Notes to the Financial Statements continued

## Fair value of the rights granted

|                                  | Service Rights |
|----------------------------------|----------------|
| Grant date                       | 26/10/2017     |
| Vesting date                     | 31/10/2018     |
| Expiry date                      | 31/12/2021     |
| Exercise price                   | \$0.0000       |
| Stock price at issue             | \$0.0500       |
| Expected life (years)            | N/A            |
| Volatility                       | 150.00%        |
| Risk free rate                   | 1.75%          |
| Dividend yield                   | N/A            |
| Vesting period (years)           | 1.0            |
| Average fair value at Grant date | \$0.1250       |

Reconciliation of the outstanding performance and service rights:

|  | 2020             |                                    | 2019             |                                    |
|--|------------------|------------------------------------|------------------|------------------------------------|
|  | Number of rights | Weighted average exercise price \$ | Number of rights | Weighted average exercise price \$ |
| Balance at the beginning of the financial year | 1,643,836        | \$0.1250                           | 3,443,836        | \$0.1250                           |
| Granted during the financial year              | -                | -                                  | -                | -                                  |
| Forfeited/cancelled during the financial year  | -                | -                                  | (1,800,000)      | \$0.1250                           |
| Exercised during the financial year            | (1,643,836)      | \$0.1250                           | -                | -                                  |
| Expired during the financial year              | -                | -                                  | -                | -                                  |
| Balance at the end of the financial year       | -                | -                                  | 1,643,836        | \$0.1250                           |
| Exercisable at the end of the financial year   | -                | -                                  | 1,643,836        | \$0.1250                           |

## NOTE 28: Key management personnel compensation

## Details of key management compensation

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

|                              | Year ended 31-Jul-20 | Year ended 31-Jul-19 |
|------------------------------|----------------------|----------------------|
|                              | \$                   | \$                   |
| Short-term employee benefits | 948,332              | 946,907              |
| Post-employment benefits     | 93,619               | 63,475               |
| Other long-term benefits     | 1,356                | 316                  |
| Termination benefits         | -                    | -                    |
| Share-based payments         | -                    | (119,125)            |
|                              | <b>1,043,307</b>     | <b>891,573</b>       |

## NOTE 29: Related party transactions

### a) Equity interests in related parties

#### *Equity interests in subsidiaries*

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 24 to the financial statements.

### b) Transactions with Key Management Personnel

#### *Key management personnel compensation*

Details of key management personnel compensation are disclosed in Note 28 to the financial statements.

#### *Loans from key management personnel*

During the financial year, the Group did not recognise any loan transactions with key management personnel.

There are no outstanding loans from key management personnel as at 31 July 2020.

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

|   | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|---|-------------------------|-------------------------|
|   | \$                      | \$                      |
| Consolidated profit includes the following amounts arising from transactions with key management personnel of the Group or their related parties: |                         |                         |
| Other expenses  | –                       | 102,714                 |
|   | –                       | <b>102,714</b>          |

The above transactions were performed at arm's length.

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

- purchases of \$nil (2019: \$102,714) to Mr Stephen Heath for external consulting services.

### c) Transactions with other related parties

Transactions between Funtastic Limited and other entities in the wholly owned Group during the financial years ended 31 July 2019 and 31 July 2020, which were eliminated on consolidation, consist of:

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

## Notes to the Financial Statements continued

**NOTE 30: Remuneration of auditors**

|  | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|--|-------------------------|-------------------------|
|  | \$                      | \$                      |
| Grant Thornton Audit Pty Ltd   |                         |                         |
| Audit Services   |                         |                         |
| Audit and review of the financial reports of the entity                | 150,000                 | 165,000                 |
| Audit of the financial report of overseas subsidiary <sup>(i)</sup>    | 15,000                  | 22,000                  |
| Other Services   |                         |                         |
| Preparation of tax return and general taxation services <sup>(i)</sup> | 38,500                  | 38,500                  |
|  | <b>203,500</b>          | <b>225,500</b>          |

(i) Related practice of parent entity auditor.

**NOTE 31: Parent entity disclosures**

| Financial Position                                 | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|--|-------------------------|-------------------------|
|  | \$'000                  | \$'000                  |
| <b>Assets</b>                                      |                         |                         |
| Current assets                                     | 4,122                   | 10,512                  |
| Non-current assets                                 | 21,491                  | 21,704                  |
|  | <b>25,613</b>           | <b>32,216</b>           |
| <b>Liabilities</b>                                 |                         |                         |
| Current liabilities                                | (4,626)                 | (7,412)                 |
| Non-current liabilities                            | (8,976)                 | (3,697)                 |
|  | <b>(13,602)</b>         | <b>(11,109)</b>         |
| <b>Net Assets</b>                                  | <b>12,011</b>           | <b>21,107</b>           |
| Issued capital                                     | 225,160                 | 224,838                 |
| Accumulated losses                                 | (213,149)               | (203,936)               |
| Reserves:  |                         |                         |
| Equity-settled benefits                            | -                       | 205                     |
| <b>Total Equity</b>                                | <b>12,011</b>           | <b>21,107</b>           |
| Financial Performance                              | Year ended<br>31-Jul-20 | Year ended<br>31-Jul-19 |
|  | \$'000                  | \$'000                  |
| Profit/(Loss) for the year – continuing operations | (9,205)                 | 8,333                   |
| <b>Total comprehensive profit/(loss)</b>           | <b>(9,205)</b>          | <b>8,333</b>            |

## **NOTE 32: Subsequent events**

### **Planned acquisition**

On 23 October 2020, the Group announced the acquisition of 100% of the Hobby Warehouse Group (HWG), the operator of the Australian retail websites Toys“R”Us, Babies“R”Us and Hobby Warehouse. Under the terms of the Acquisition, the Group will acquire HWG for total consideration of \$32.6 million, which will be satisfied by the issue of 291 million shares at \$0.112 to the vendors of HWG (Vendor Shares). Of the Vendor Shares, 141 million shares will be escrowed for 12 months and a further 141 million will be escrowed for 24 months from the completion of the acquisition. The acquisition is also conditional on the following:

- a \$29 million equity raising (Equity Raising) to fund the businesses, which is subject to shareholder approval;
- Jaszac Investments converting \$6m of the debt owed to it by the Company into equity at the same price as the Equity Raising;
- shareholder approval of the acquisition and the issue of the Vendor Shares; and
- various other conditions under the terms of the acquisition.

The Equity Raising is a fully underwritten conditional placement comprising of the issue of up to 258.2 million new fully paid ordinary shares in the Group. Both the Placement and Debt Conversion will be subject to shareholder approval, which is to be sought at the annual general meeting to be held on 23 November 2020. New Shares issued will rank equally with existing ordinary shares on issue.

### **COVID-19**

Subsequent to balance date, Victoria has experienced a second wave of the COVID-19 pandemic. The impact of the COVID-19 pandemic is ongoing and it is not practicable to estimate the impact after the reporting date. The situation continues to develop and the impact will be dependent on measures imposed by both Australian and foreign governments such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

## **NOTE 33: Contingent assets and liabilities**

As of the 31 July 2020, the Group had a contingent liability of \$2.36 million related to a potential claim against unpaid royalties associated with a terminated contract. The Group has sought legal advice in respect to this claim and based on this advice considers there to be a low probability that this claim will be successful in the future.

There are no contingent assets as at 31 July 2020.

## **NOTE 34: General information**

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

## Additional stock exchange information

### Distribution of equity securities as at 23 October 2020

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

| Range            | Fully Paid Ordinary Shares |                    |                |          |          |
|------------------|----------------------------|--------------------|----------------|----------|----------|
|                  | Holders                    | Securities         | %              | Options  | Rights   |
| 1 – 1,000        | 2,485                      | 475,468            | 0.20%          | –        | –        |
| 1,001 – 5,000    | 347                        | 789,009            | 0.33%          | –        | –        |
| 5,001 – 10,000   | 117                        | 888,812            | 0.37%          | –        | –        |
| 10,001 – 100,000 | 256                        | 10,159,823         | 4.23%          | –        | –        |
| 100,001 and over | 185                        | 228,090,963        | 94.87%         | –        | –        |
|                  | <b>3,390</b>               | <b>240,404,075</b> | <b>100.00%</b> | <b>–</b> | <b>–</b> |

The number of shareholders holding less than a marketable parcel of shares was 2,887 holding 1,600,489 shares (based on the closing market price on 23 October 2020).

### Substantial shareholders' report

|   | Shares     | %      |
|---|------------|--------|
| JASZAC INVESTMENTS PTY LTD <JASON SOURASIS INVESTMNT A/C> | 47,154,705 | 19.61% |
| BOND STREET CUSTODIANS LIMITED <SFPAPL A/C>               | 23,652,306 | 9.84%  |
| G HARVEY NOMINEES PTY LTD <HARVEY 1995 DISCRETIONARY AC>  | 22,113,602 | 9.20%  |



## Twenty largest quoted equity security holders

|   | Shares             | %              |
|---|--------------------|----------------|
| JASZAC INVESTMENTS PTY LTD <JASON SOURASIS INVESTMNT A/C>       | 44,378,105         | 18.46%         |
| G HARVEY NOMINEES PTY LTD <HARVEY 1995 DISCRETIONARY AC>        | 22,113,602         | 9.20%          |
| BOND STREET CUSTODIANS LIMITED <SFPAPL – V38986 A/C>            | 11,911,000         | 4.95%          |
| BOND STREET CUSTODIANS LIMITED <SFPAPL – V38983 A/C>            | 11,741,306         | 4.88%          |
| PHILRENE PTY LTD <PHILRENE SUPER FUND A/C>                      | 11,555,178         | 4.81%          |
| UBS NOMINEES PTY LTD  | 11,204,064         | 4.66%          |
| APES WITH WINGS PTY LTD <SALOM FAMILY 3 A/C>                    | 9,200,000          | 3.83%          |
| BT PORTFOLIO SERVICES LIMITED <MR MICHAEL FIRRITO BTML A/C>     | 8,990,000          | 3.74%          |
| ANGIE TARAS   | 5,000,000          | 2.08%          |
| CITICORP NOMINEES PTY LIMITED                                   | 4,197,651          | 1.75%          |
| VAWDREY NOMINEES PTY LTD <THE VAWDREY FAMILY ACCOUNT>           | 3,296,324          | 1.37%          |
| BT PORTFOLIO SERVICES LIMITED <N & D SPARTELS S/F A/C>          | 3,006,512          | 1.25%          |
| MRS ANNABEL JANE MACKENZIE                                      | 2,830,833          | 1.18%          |
| BT PORTFOLIO SERVICES LIMITED <LPS INVESTMENT CO UNIT A/C>      | 2,773,000          | 1.15%          |
| HEATH NOMINEES (AUST) PTY LTD <THE HEATH FAMILY A/C>            | 2,640,706          | 1.10%          |
| BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C> | 2,248,000          | 0.94%          |
| BELL POTTER NOMINEES LTD <BB NOMINEES A/C>                      | 2,007,617          | 0.84%          |
| MR ATHAR JAMEEL BHUTTO  | 2,000,000          | 0.83%          |
| BT PORTFOLIO SERVICES LIMITED <JDZ INVESTMENTS A/C>             | 1,853,630          | 0.77%          |
| MR STEVEN DOUGLAS LEIGHTON                                      | 1,643,836          | 0.68%          |
| <b>Totals</b>   | <b>164,591,364</b> | <b>68.46%</b>  |
| <b>Total Issued Capital</b>                                     | <b>240,404,075</b> | <b>100.00%</b> |

## Unquoted equity securities

As at the date of this report there were no unquoted equity securities.

## Voting rights

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

### Ordinary shares

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

### Options, service share rights and performance share rights

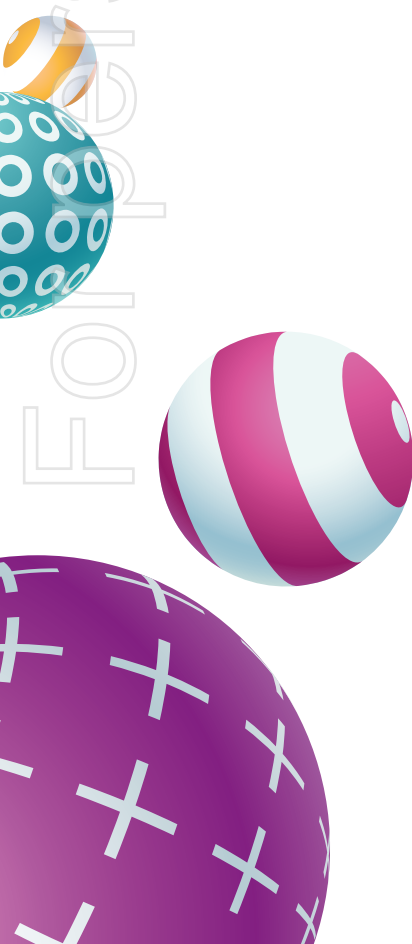
No voting rights.

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