Appendix 4D (rule 4.2A.3) – Preliminary Final Report for the Half Year ended 31 January 2015

Name of Entity:	Funtastic Limited
ABN:	94 063 886 199
Current Financial Period Ended:	Six months ended 31 January 2015
Previous Corresponding Reporting Period:	Six months ended 31 January 2014

Results for Announcement to the Market

	2015 $'000	Up/Down	% Movement
Revenue from ordinary activities from continuing operations	50,435	Down	(18%)
Revenue from ordinary activities from discontinued operations	-	Down	(100)%
Net loss from ordinary activities before tax from continuing operations	(18,654)	Up	529%
Net loss from ordinary activities after tax from continuing operations (all attributable to members of Funtastic Limited)	(28,108)	Up	881%
Net loss from ordinary activities after tax from discontinued operations (all attributable to members of Funtastic Limited)	(426)	Down	(98%)
Net loss from ordinary activities after tax from continuing and discontinued operations (all attributable to members of Funtastic Limited)	(28,534)	Up	10%

Dividend Information	**Amount per Share (cents)**	**Franked amount per Share (cents)**	**Tax rate for Franking Credit**
Interim Dividend – Current reporting period	nil	nil	n/a

Net Tangible Assets / (Liabilities)	**31 Jan 2015**	**31 July 2014**	**31 Jan 2014**
Net tangible assets/ (liabilities) per security	(2.40) cents	0.06 cents	1.39 cents

Other information

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

For a brief explanation of any figures above please refer to the Announcement on the results for the six months ended 31 January 2015 and the attached Half Year Report

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Company Information

Directors	Shane Tanner *Chairman and Independent Non-Executive Director*
	Nir Pizmony *Chief Executive Officer (Appointed 1 August 2014)*
	Craig Mathieson *Non-Executive Director*
	Stephen Heath *Independent Non-Executive Director*
	Linda Norquay *Independent Non-Executive Director*
	Grant Mackenzie *Chief Operating Officer / Company Secretary / Executive Director (Appointed 6 August 2014)*
Company Secretary	Grant Mackenzie
Registered Office	Level 2 Tower 2 Chadstone Place 1341 Dandenong Road Chadstone Vic 3148
Principal Administrative Office	Level 2 Tower 2 Chadstone Place 1341 Dandenong Road Chadstone Vic 3148
Share Registry	Boardroom Pty Limited Level 8, 446 Collins Street Melbourne VIC 3000
Auditors	Deloitte Touche Tohmatsu 550 Bourke Street Melbourne Vic 3000
Bankers	National Australia Bank 535 Bourke Street Melbourne Vic 3000
Solicitors	Clarendon Lawyers Level 17 Rialto North Tower 525 Collins Street Melbourne Vic 3000

The Directors of Funtastic Limited submit herewith the financial report of Funtastic Limited and its subsidiaries (the Group) for the half-year ended 31 January 2015. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

The names of the Directors of the Company during or since the end of the half-year are:

- Mr. Shane Tanner
- Mr. Craig Mathieson
- Mr. Nir Pizmony
- Mr. Stephen Heath
- Ms. Linda Norquay
- Mr. Grant Mackenzie (Appointed 6 August 2014)

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

Review of operations

The table below details the contributions from the Group continuing operations and the effect on the reported results.

	31 January 2015	31 January 2014
	$'000	$'000
Revenue	**50,435**	**61,287**
EBITDA (excluding impairment)	**(4,217)**	**1,699**
Net Loss before tax	**(18,654)**	**(2,964)**

Key factors since the 31 July 2014 year end include the following:

- Rationalisation of the business post Madman divestment
- Significant reduction of excess inventory:
  - Own inventory
  - International distributors
  - Australian retailers
- Expanded own brand portfolio
- Secured additional agency brands for local and International distribution (beyond the toy category, with less seasonality)

Since the divestment of Madman, the company has aligned its structure in order to continue its strategic direction of having more of our own or owned manufactured brands that are distributed on a global basis.

Whilst the transformation has proven to be more challenging the company is confident that it is well positioned to begin the building process that will deliver a sustainable profit.

Revenue from continuing operations reduced by 18% for the six months ended 31 January 2015 in comparison with the prior corresponding period driven by reduced international sales and some Australian retailer's inventory levels being relatively high at the commencement of the financial year.

Correspondingly the gross profit margins have also been impacted this half from the continued efforts to clear the excess inventory and lower proportion of International sales.

Whilst the overheads are 4% higher than the same period last year, there has been an increased investment in marketing as we increase our focus on brand building. Both warehousing and administration costs have reduced by 5% over the prior corresponding period, despite the inclusion of some additional once off costs resulting from the rationalization of the business following the Madman divestment.

For continued operations the Group generated a loss before interest, tax depreciation and amortisation (EBITDA) excluding impairment for the period of $4.2m compared with a profit of $1.7m in the prior corresponding period.

Following a challenging first half a more conservative assessment of the medium term performance of the company has been done as it continues to transition into a global company. As a result the company has re-assessed the carrying value of the Group using a value-in-use methodology which has resulted in an impairment charge of $11.1m.

Interest costs were significantly down on the same period last year as a result of the lower level of debt which was reduced from the proceeds from the sale of Madman.

Due to the current losses, tax benefits previously brought to account were required to be reversed. The company currently has tax losses of $66.9m of which $5.8m has been recognised and carried on the balance sheet at the period end.

Discontinued Operations:

The company has provided for an amount of $426k based on our internal assessment in respect of the dispute raised by the buyer of Madman over the completion accounts. Whilst the company and its well respected financial advisors are confident in its assessment of the final amount of the completion accounts, the final determination will be made by an Independent Accountant. The final determination is due to be made within 1-2 weeks and until finalized, remain uncertain.

Outlook

Funtastic remains committed to the continued geographical expansion of our brands, expansion of our own brand portfolio through new product development, innovation and acquisition, as well as strengthening of our core agency portfolio of products. We will continue to leverage our core competencies by seeking new opportunities that will provide ongoing sustainable growth

The benefits of the initiatives that have been implemented over the past few months will have a positive impact in the second half of FY 15 and into FY16. These include:

- The continued expansion of the Chill Factor range of products.
- A number of new products which have been secured that will increase sales in both Australia and our key international markets upon launch.
- Ongoing benefits derived from earlier implementation of cost savings initiatives, and
- Improved margins with a better mix of new products, own products and clearance sales.

Through our own and key agency brands we continue to enhance our manufacturing and innovation capabilities, global distribution networks, brand building capabilities and domestic distribution expertise that will enable us to strengthen a well-balanced diversified portfolio of key brands.

Dividend

There will be no dividend in FY15 until the company returns to a profit and reduces its current core debt levels.

Bank

The company has reestablished its banking facilities through to July 2016 with its primary lenders, The National Bank of Australia (NAB). The revised facilities provide adequate funding and appropriate facilities following the divestment of Madman to support the strategic direction of global expansion of our own manufactured brands. New covenants have been established that are more aligned with the revised outlook of the business.

Auditor's independence declaration

The auditor's independence declaration is included on page 8 of the half-year report.

Rounding of amounts to nearest thousand dollars

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

Future Developments

At the date of this report, there are no likely developments in the operations of this company required to be reported in accordance with section 299(1)(e) of the *Corporations Act 2001* other than as mentioned in this report.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the *Corporations Act 2001*.

On behalf of the Directors:

Shane Tanner
Chairman
Melbourne, 31 March 2015

Deloitte.

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

31 March 2015

Dear Board Members

Auditors Independence Declaration - Funtastic Limited

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

As lead audit partner for the review of the financial statements of Funtastic Limited for the half-year ended 31 January 2015, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Chris Biermann
Partner
Chartered Accountants

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Half-Year Ended 31 January 2015

	Note	For the half-year ended 31 January 2015 $'000	31 January 2014 $'000
Continuing Operations			
Revenue		**50,435**	**61,287**
Cost of sale of goods		**(36,040)**	**(41,051)**
Gross profit		**14,395**	**20,236**
Other Income		**975**	**313**
Warehouse and distribution		**(4,375)**	**(4,524)**
Marketing and selling		**(7,260)**	**(5,915)**
Administration and finance		**(7,952)**	**(8,411)**
Earnings before interest, taxation, depreciation and amortisation (EBITDA) excluding Impairment		**(4,217)**	**1,699**
Impairment charge	6	**(11,120)**	**-**
EBITDA		**(15,337)**	**1,699**
Depreciation and amortisation expenses		**(1,969)**	**(2,263)**
Finance costs		**(1,348)**	**(2,400)**
Loss before income tax		**(18,654)**	**(2,964)**
Income tax (expense) / benefit	3	**(9,454)**	**98**
Loss for the period from continuing operations		**(28,108)**	**(2,866)**
Discontinued operations			
Loss for the period from discontinued operations	4	**(426)**	**(23,016)**
Loss for the period		**(28,534)**	**(25,882)**
Other comprehensive income (net of tax)			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		**124**	**134**
Fair value (loss) / gain on cash flow hedges		**(141)**	**(39)**
		(17)	**95**
Total comprehensive loss attributable to members of Funtastic Limited		**(28,551)**	**(25,787)**
Earnings per share		**Cents**	**Cents**
From continuing and discontinued operations			
Basic (cents per share)		**(4.27)**	**(3.92)**
Diluted (cents per share)		**(4.27)**	**(3.92)**
From continuing operations			
Basic (cents per share)		**(4.21)**	**(0.43)**
Diluted (cents per share)		**(4.21)**	**(0.43)**

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

Condensed Consolidated Statement of Financial Position as at 31 January 2015

	Note	As at 31 January 2015 $'000	As at 31 July 2014 $'000
Current Assets			**Restated**
Cash		**2,826**	**4,909**
Trade and other receivables		**11,782**	**17,138**
Inventories		**17,748**	**17,914**
Other		**5,872**	**6,314**
Other Financial Assets		**183**	**-**
Tax asset		**-**	**5**
Total Current Assets		**38,411**	**46,280**
Non-Current Assets			
Property, plant and equipment		**1,483**	**1,568**
Goodwill	6	**39,165**	**49,995**
Other intangibles		**16,199**	**17,379**
Deferred tax assets		**3,334**	**12,654**
Other Investments		**-**	**29**
Other assets		**230**	**469**
Total Non-Current Assets		**60,411**	**82,094**
Total Assets		**98,822**	**128,374**
Current Liabilities			
Trade payables		**9,996**	**17,280**
Borrowings	7	**43,904**	**29,357**
Provisions		**758**	**884**
Other	8	**3,347**	**4,584**
Tax liabilities		**69**	**-**
Other financial liabilities		**473**	**180**
Total Current Liabilities		**58,547**	**52,285**
Non-Current Liabilities			
Borrowings	7	**110**	**7,299**
Provisions		**385**	**485**
Deferred tax liabilities		**220**	**235**
Other	8	**214**	**310**
Total Non-Current Liabilities		**929**	**8,329**
Total Liabilities		**59,476**	**60,614**
Net Assets		**39,346**	**67,760**
Equity			
Issued capital	10	**208,372**	**208,372**
Accumulated losses		**(170,049)**	**(141,515)**
Reserves		**1,023**	**903**
Total Equity		**39,346**	**67,760**

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

Condensed Consolidated Statement of Changes in Equity for the Half-Year Ended 31 January 2015

	Share Capital $'000	Accumulated Losses $'000	Foreign Currency Translation Reserve $'000	Equity-settled Employee Benefits Reserve $'000	Cash Flow Hedging Reserve $'000	Total $'000
Balance at 1 August 2013	204,497	(102,473)	(1,013)	1,639	297	102,947
Payment of dividends	-	(3,335)	-	-	-	(3,335)
Loss for the period	-	(25,882)	-	-	-	(25,882)
Other comprehensive income	-	-	134	-	(39)	95
Total comprehensive income/(loss)	-	(25,882)	134	-	(39)	(25,787)
Recognition of share based payments	-	-	-	67	-	67
Issue of ordinary shares	3,875	-	-	-	-	3,875
Balance at 31 January 2014	**208,372**	**(131,690)**	**(879)**	**1,706**	**258**	**77,767**
Balance at 1 August 2014	208,372	(141,515)	(976)	1,941	(62)	67,760
Loss for the period	-	(28,534)	-	-	-	(28,534)
Other comprehensive income	-	-	124	-	(141)	(17)
Total comprehensive income / (loss)	-	(28,534)	124	-	(141)	(28,551)
Recognition of share-based payments	-	-	-	137	-	137
Balance at 31 January 2015	**208,372**	**(170,049)**	**(852)**	**2,078**	**(203)**	**39,346**

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

Condensed Consolidated Cash Flow Statement for the Half-Year Ended 31 January 2015

	For the half-year ended 31 January 2015 $'000	For the half-year ended 31 January 2014 $'000
Cash flows from operating activities		
Receipts from customers	60,834	84,682
Payments to suppliers and employees	(67,817)	(77,114)
Income taxes paid	-	(29)
Interest and other costs of finance paid	(1,341)	(1,975)
Net cash (used in) / provided by operating activities	(8,324)	5,564
Cash flows from investing activities		
Interest and other investment income received	325	313
Payments for acquisition of businesses	-	(500)
Payments for property, plant and equipment	(413)	(554)
Payments for intangible assets	(746)	(1,500)
Net cash used in investing activities	(834)	(2,241)
Cash flows from financing activities		
Proceeds from borrowings	7,636	2,700
Repayment of borrowings	(279)	(918)
Repayment of commercial bills	-	(3,665)
Borrowings transaction costs	-	(100)
Dividends paid to the owners of the Company	(2)	(3,272)
Net cash provided by/ (used in) financing activities	7,355	(5,255)
Net decrease in cash held	(1,803)	(1,932)
Cash and cash equivalents at the beginning of the half-year	4,909	4,305
Effect of exchange rate changes on cash held in foreign currencies	(280)	227
Cash and cash equivalents at the end of the half-year	2,826	2,600

The above condensed consolidated cash flow statement should be read in conjunction with the accompanying notes.

NOTE 1: Significant accounting policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB134 'Interim Financial Reporting'. Compliance with AASB134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical costs, except for the revaluation of certain non-current assets and financial instruments to 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 noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's annual financial report for the financial year ended 31 July 2014, except for the impact of the adoption of the new and revised accounting policies discussed below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Going concern basis

The loss and operating cash outflow in the current financial period were primarily driven by softer revenue from international markets due to slower than anticipated release of 'new' products as well as from the continued program of clearing excess inventory. Since 31 July 2014, when the group divested its Madman Entertainment business, the Group has restructured its operations such that all assets and resources are managed at a Group level. This has resulted in significant cost savings which will be realized in the second half of the financial year, together with the benefits of improved trading terms negotiated with a number of major customers and suppliers and the results expected from the release of new products into new markets including the United States. Based on management's forecasts, the Group will return to profit during the second half of the financial year.

The net current asset deficiency at 31 January 2015 was due to borrowings of $43,904,000 (2014: $29,357,000) being classified as current, given that the relevant facilities were due to expire on 31 October 2015. Further, certain covenants were breached at 31 January 2015 as a result of the loss incurred. Subsequent to the end of the half year, Funtastic has negotiated the terms of a revised borrowings facility with its bankers, which provides funding until July 2016. Based on the Group's forecasts, the revised facility is expected to be sufficient to meet Funtastic's cash flow requirements and no breaches of financial covenants are forecast.

New and revised Standards and Interpretations

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half-year.

New and revised standards that have been adopted from 1 August 2014 are detailed below. Adoption of these standards did not have any material effect on the financial position or performance of the Group.

New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the Group include:

- AASB 1031 'Materiality' (2013)

- AASB 2012-3 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'

- AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets'

- AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Standards – Investment Entities'

- AASB 2013-9 'Amendments to Australian Accounting Standards' Part B: 'Materiality'

- AASB 2014-1 'Amendments to Australian Accounting Standards' [Part A – Annual Improvements 2010-2012 and 2011-2013 cycles]

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

Reclassification of comparatives

The condensed Consolidated Statement of Financial Position as at 31 July 2014 has been restated to reflect the reclassification of stock in transit totaling $1,540,000 to 'Inventories' from 'Other' current assets. These adjustments do not impact on EPS determined in accordance with AASB133 or the Condensed Consolidated Statement of profit or loss for the six months ended 31 January 2014 as the reclassification is between two current asset categories.

Key sources of estimation uncertainty

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

- *Impairment of goodwill in continuing business segment*

The Group tests annually or when impairment indicators are identified, whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amount of the cash-generating unit has been determined based on value-in-use calculations. These calculations require the use of assumptions. A significant change to these assumptions as reflected in note 6 may affect the recoverable amount of the cash generating unit.

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

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

- *Settlement of license audits*

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

- *Recoverability of inventory*

The Group periodically assesses whether the net realizable value (NRV) of its inventories is reasonable in light of changing market conditions, particularly the recent softening of the retail industry. Whilst the Group has provided to recognise the best estimate for the amount for which its inventory will be realised, the final amounts will be subject to the prevailing market conditions and may differ from the amounts provided.

- *Taxation losses recognised as asset*

The Group has recognised a deferred tax in respect to revenue tax losses of approximately 2 years future profits based on the expected future taxable income. The final amount recoverable will depend on the losses being available under the 'continuity of ownership test' and the Group achieving this future taxable income. No additional deferred tax asset has been taken up, during the six months ended 31 January 2015 (2014: $0.2m). Tax losses as at 31 January 2015 total $66.9m, of which $5.8m (31 July 2014: $33.9m) have been recognised and carried on the Balance Sheet as at the period end.

- *Discontinued operations*

As a result of the disposal of Madman Entertainment, a debtor of $3.8m was recorded, as at 31 July 2014, relating to the working capital adjustment from the sale on final settlement. This amount has been reduced to $3.4m, being the company's best assessment of the amount recoverable. This assessment has been reviewed by the company's independent advisors. However, the independent accountant ultimately will rule on the final amount recoverable or payable, thus this remains uncertain and out of Funtastic's control subject to their assessment of the facts.

NOTE 2: Segment information

Since 31 July 2014, post the sale of Madman Entertainment, Funtastic has restructured the Group and consolidated its business strategy such that the Chief Operating Decision Maker directs assets and resources on a group wide basis. Accordingly Funtastic have aligned internal reporting to reflect this change which has resulted in the company reducing the number of reporting and operating segments from two down to one.

NOTE 3: Income tax – effective tax rate

	Period ended 31 January 2015 $'000	Period ended 31 January 2014 $'000
Income tax recognised in profit or loss		
The expense for the period can be reconciled to the accounting profit as follows:		
Loss from continuing operations	**(18,654)**	(2,964)
Tax benefit at the Australian tax rate of 30%	**(5,596)**	(889)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Expenses that are not deductible in determining taxable loss	**3,749**	631
Effect of current year's unrecognised and unused tax losses incurred in the period	**3,030**	-
Effect of reversal of previously recognised and unused tax losses	**8,432**	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(61)**	26
Other	**(126)**	99
	9,428	(133)
Adjustments recognised in the current year in relation to the deferred tax of prior years	**26**	35
Income tax expense (benefit) recognised in profit or loss	**9,454**	(98)

NOTE 4: Discontinued Operations

4.1 Disposal of Madman Entertainment

As at 31st July 2014, the Madman Entertainment business was sold to a third party at Market Value. As part of the 'Completion' process the company has recognized a reduction in the Working Capital Adjustment from $3.8m to $3.4m resulting in a loss from discontinued operations for the six months ended 31 January 2015 of $426,000. The final determination is subject to the determination of the independent accountant as detailed in Note 1.

4.2. Analysis of loss for the period from discontinued operations

The results of the discontinued operations included in the loss for the period are set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current period.

	Period ended 31 January 2015 $'000	Period ended 31 January 2014 $'000
Loss for the period from discontinued operations		
Revenue	-	23,341
Expenses	-	(22,096)
Profit before tax	-	1,245
Attributable income tax expense	-	(98)
	-	1,147
Loss on re-measurement to fair value less costs to sell loss on disposal of operation	(426)	(29,512)
Attributable income tax benefit(i)	-	5,349
	(426)	(24,163)
Loss for the period from discontinued operations (attributable to owners of the Company)	(426)	(23,016)
Cash flows from discontinued operations		
Net cash inflows from operating activities	-	1,071
Net cash outflows from investing activities	-	(749)
Net cash inflows	-	322

(i) Reversal of previously recognised deferred tax liability

NOTE 5: Dividends

The Directors have not declared an interim fully franked dividend (2014: Nil)

NOTE 6: Non-current assets – Goodwill and Other Intangible Assets

Goodwill

	31 January 2015 $'000	31 January 2014 $'000
Gross carrying amount		
Balance at the beginning of year	49,995	78,845
De-recognition on disposal of a subsidiary	-	(28,850)
Impairment charge	(10,830)	-
Balance at 31 January	**39,165**	**49,995**
Net book value		
Balance at the beginning of year	49,995	78,845
Balance at 31 January	**39,165**	**49,995**

Since 31 July 2014, post the sale of Madman Entertainment, Funtastic has restructured the Group and consolidated its business. As a result of this re-structuring, the number of CGU's has reduced from two down to one. Goodwill is allocated to the single CGU in the business.

The CGU is required to perform an impairment test annually on goodwill and other indefinite life intangible assets as required by AASB 136. More frequent reviews are performed for indications of impairment of the CGU, and where an indication of impairment is identified a formal impairment assessment is performed.

The Group has identified the following Indicators of impairment at 31 January 2015:

- The half year result is below budget expectations. This is due to lower than anticipated international sales as a result of high international distributor inventory levels, the continued efforts to clear excess inventory, and the continuing impact of restructuring activity post the sale of Madman; and
- The market capitalisation has declined during the half year as a result of the devaluation of share price.

As a result, the Group assessed the recoverable amount of the CGU and related goodwill and intangibles at 31 January 2015 having regard to the value-in-use approach. The Group has also prepared a fair value less cost of disposal model for the purpose of an impairment testing cross check at 31 January 2015.

Impairment testing – Value-in-use

In calculating value-in-use, the cash flows include projections of cash inflows and outflows from continuing use of the group of assets making up the CGU. The cash flows are estimated for the assets of the CGU's in their current condition and discounted to their present value using a post-tax discount rate that reflects the current market assessments of the risks specific to the CGU. The group uses a 5 year discounted cash flow model with a terminal growth rate for years beyond the 5 year forecast period.

Key assumptions

In determining the value-in-use, the following key assumptions were used:

- Terminal growth rate of 2.0% which is materially consistent with long term economic growth in the key markets in which the CGU operates;
- Post-tax discount rate of 11.5%, which reflects the risk specific to the CGU.

Cash flow forecasts for the CGU are based on forecast sales and gross margins for second half of FY2015 and FY2016. Sales projected assume that FY2016 will achieve higher sales than FY2015 particularly in the international market. Margins used are based upon the normalisation of historical margins in 2014 and 2015 for abnormal clearance activity and assumptions on projected sales mix and rebate arrangements.

NOTE 6: Non-current assets – Goodwill and Other Intangible Assets(continued)

Key assumptions (continued)

Based on this assessment, the Directors are of the opinion that the carrying value of goodwill and intangibles exceeds their recoverable amount.

Outcome of assessment

The directors have determined to impair goodwill by an amount of $10,830,000 as at 31 January 2015. The impairment has arisen as a result of the indicators outlined above and assessment of the revised forecast.

This impairment amount represents the lower outcome of the value-in-use impairment assessment completed as outlined above, and the cross check to fair value less cost of disposal (refer further below).

Sensitivity analysis

Changes in the key assumptions in the table below would have the following approximate impact on the recoverable amount of the CGU:

	Change in variable	Effect on recoverable amount $'000
Terminal Growth rate	+ 1.0%	2,690
	- 1.0%	(2,177)
Post tax discount rate	+ 1.0%	(4,869)
	- 1.0%	6,011

Changes in the assumptions used in the CGU value-in-use model, when considered in isolation, will result in the following impairment impact on the profit or loss.

	Change in variable	Effect on profit or loss $'000
Terminal Growth rate	- 1.0%	(2,177)
Post tax discount rate	+ 1.0%	(4,869)

It must be noted that each of the sensitivities above assumes that a specific assumption moves in isolation, while the other assumptions are held constant. In reality, a change in one of the aforementioned assumptions could be accompanied by a change in another assumption, which may increase or decrease the net impact.

Impairment testing – Fair value less cost of disposal

The Group has also prepared a fair value less cost of disposal model for the purpose of an impairment testing cross check at 31 January 2015. The results of this assessment were consistent with the value-in-use assessment outlined above.

Other intangible assets

In addition to the impairment assessment outlined above, the Group assessed the recoverable value of its other intangible assets at 31 January 2015. As a result of this impairment assessment, the directors have determined to impair other intangible assets by an amount of $290,000.

NOTE 7: Borrowings

The Group's borrowings arrangement as at the 31st January 2015 with the National Australia Bank was due to expire on 31 October 2015. Accordingly all Bank Debt has been reclassified as current.

Subsequent to the end of the half year, Funtastic has negotiated the terms of a revised borrowings facility with its bankers, which provides funding until July 2016.

	31 January 2015 $'000	**31 July 2014 $'000**
Current		
Bill finance	**10,665**	**3,665**
Debtors finance	**6,792**	**4,783**
Finance lease liabilities	**177**	**266**
Trade finance	**26,270**	**20,644**
Total Current	**43,904**	**29,357**
Non-current		
Bill finance	**-**	**7,000**
Finance lease liabilities	**110**	**299**
Total Non-current	**110**	**7,299**
Current borrowings	**43,904**	**29,357**
Non-current borrowings	**110**	**7,299**
	44,014	**36,656**

NOTE 8: Other liabilities

	31 January 2015 $'000	31 July 2014 $'000
Current		
Accrued royalties	776	924
Lease incentives	160	160
Payroll accruals	12	367
Other creditors	512	125
Other accrued expenses	1,887	3,008
Total current	3,347	4,584
Non-current		
Lease incentives	214	310
Total non-current	214	310

NOTE 9: Earnings Per Share

	31 January 2015 Cents per share	31 January 2014 Cents per share
Basic earnings per share		
From continuing operations	(4.21)	(0.43)
From discontinued operations	(0.06)	(3.49)
Earnings per share	(4.27)	(3.92)
Diluted earnings per share		
From continuing operations	(4.21)	(0.43)
From discontinued operations	(0.06)	(3.49)
Earnings per share	(4.27)	(3.92)

Basic earnings per share

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

	31 January 2015 $'000	31 January 2014 $'000
Net loss	(28,534)	(25,882)
Earnings used in the calculation of basic EPS	(28,534)	(25,882)
Adjustments to exclude loss for the period from discontinued operations	(426)	(23,016)
Loss used in the calculation of basic EPS from continuing operations	(28,108)	(2,886)

	31 January 2015 No	31 January 2014 No.
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	667,169,723	659,460,433

NOTE 9: Earnings Per Share (continued)

Diluted earnings per share

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

	31 January 2015 $'000	31 January 2014 $'000
Net loss	**(28,534)**	**(25,882)**
Earnings used in the calculation of basic EPS	**(28,534)**	**(25,882)**
Adjustments to exclude loss for the period from discontinued operations	**(426)**	**(23,016)**
Loss used in the calculation of basic EPS from continuing operations	**(28,108)**	**(2,886)**

	31 January 2015 No.	31 January 2014 No.
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	**667,169,723**	**659,460,333**
Shares deemed to be issued for no consideration in respect of:		
Share options and performance share rights (i)	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**667,169,723**	**659,460,333**

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

	31 January 2015 No. '000	31 January 2014 No. '000
Potential options – non-dilutive	2,100	12,067
	2,100	**12,067**

Potential options – non-dilutive is made up of ESLS 2,100,000 shares (2014: ESOP 1,333,333 shares; Unlisted options 6,333,333 shares; and ESLS shares 4,400,000)

NOTE 10: Issued capital

	31 January 2015 $'000	31 January 2014 $'000
Share Capital		
667,169,723 fully paid ordinary shares	**208,372**	**208,372**

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

	31 January 2015		31 January 2014	
Details	**Number of Shares**	**Share Capital $'000**	**Number of Shares**	**Share Capital $'000**
Movements in Ordinary Share Capital				
Opening balance	669,869,723	208,372	644,569,723	204,497
Chill Factor Global (October 2013)	-	-	25,000,000	3,875
ESLS 1 forfeiture in November 2013	-	-	(200,000)	-
Shares issued under ESLS 2 in January 2014	-	-	2,200,000	-
ESLS 1 cancellation on 5 December 2014	(200,000)	-	-	-
ESLS 1 cancellation on 19 December 2014	(200,000)	-	-	-
ESLS 2 cancellation on 31 January 2015	(200,000)	-	-	-
	669,269,723	**208,372**	**671,569,723**	**208,372**
Treasury shares	(2,100,000)	-	(4,400,000)	-
Closing balance	**667,169,723**	**208,372**	**667,169,723**	**208,372**

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

In addition there are 2,100,000 shares issued under the Employee Share Loan Scheme (31 January 2014: 4,400,000), these shares do not form part of the consolidated group's issued capital and carry the same voting and participation rights as fully paid ordinary shares.

NOTE 11: Commitments

There have been no material changes to the commitments disclosed in the most recent annual report.

NOTE 12: Key management personnel

Remuneration arrangements of key management personnel are disclosed in the annual financial report. New remuneration arrangements have been finalised in respect to the group's new appointed COO and CEO on 31 July 2014.

NOTE 13: Subsequent events

Subsequent to the end of the half year, Funtastic has negotiated the terms of a revised borrowings facility with its bankers, which provides funding until July 2016.

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; and

(b) 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.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the Directors

Shane Tanner

Chairman

Melbourne, 31 March 2015

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Independent Auditor's Review Report to the Members of Funtastic Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Funtastic Limited, which comprises the condensed consolidated statement of financial position as at 31 January 2015, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 9 to 24.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Funtastic Limited's financial position as at 31 January 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Funtastic Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

Deloitte.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Funtastic Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 January 2015 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Chris Biermann
Partner
Chartered Accountants
Melbourne, 31 March 2015