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Appendix 4D (rule 4.2A.3) – Preliminary Final Report for the Half Year ended 31 January 2016

Name of Entity:	Funtastic Limited
ABN:	94 063 886 199
Current Financial Period Ended:	Six months ended 31 January 2016
Previous Corresponding Reporting Period:	Six months ended 31 January 2015

Results for Announcement to the Market

	2016 $'000	Up/Down	% Movement
Revenue from ordinary activities from continuing operations	57,066	Up	13.15%
Net loss from ordinary activities before tax from continuing operations	(3,429)	Down	90.62%
Net loss from ordinary activities after tax from continuing operations (all attributable to members of Funtastic Limited)	(3,496)	Down	92.40%
Net loss from ordinary activities after tax from discontinued operations (all attributable to members of Funtastic Limited)	(104)	Down	75.59%
Net loss from ordinary activities after tax from continuing and discontinued operations (all attributable to members of Funtastic Limited)	(3,600)	Down	92.25%

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 2016**	**31 July 2015 Restated**	**31 July 2015 Previously Reported**
Net tangible assets/ (liabilities) per security	(4.50) cents	(4.10) cents	(4.10) 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 2016 and the attached Half Year Report

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Directors

Shane Tanner
Chairman and Independent Non-Executive Director

Nir Pizmony
Chief Executive Officer / Executive Director

Stephen Heath
Independent Non-Executive Director

Linda Norquay
Independent Non-Executive Director

Grant Mackenzie
Chief Financial Officer/ Chief Operating Officer / Executive Director

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 Limited Grosvenor Place, Level 12, 225 George Street Sydney NSW 2000
Auditors	Deloitte Touche Tohmatsu 550 Bourke Street Melbourne Vic 3000
Bankers	National Australia Bank 500 Bourke Street Melbourne Vic 3000
Solicitors	Clarendon Lawyers Level 19, 333 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 2016. 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. Nir Pizmony
- Mr. Stephen Heath
- Ms. Linda Norquay
- Mr. Grant Mackenzie

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's continuing operations and the effect on the reported results:

	For the Half-year ended		
	31 January 2016 $'000	31 January 2015 Restated $'000	31 January 2015 Previously Reported $'000
Revenue	**57,066**	**50,435**	**50,435**
EBITDA (excluding impairment) (i)	**87**	**(4,217)**	**(4,217)**
Impairment Charge	**(377)**	**(29,026)**	**(11,120)**
EBITDA	**(290)**	**(33,243)**	**(15,337)**
Net Loss before tax	**(3,429)**	**(36,560)**	**(18,654)**

(i)The Directors believe EBITDA prior to impairment is a fair reflection of past operating performance excluding once off asset write-downs.

The benefits of the key initiatives implemented over the last 18 months are starting to deliver the desired outcomes as we transform from an Australian distribution company to a global brand owner:

- Group Revenue up 13%
- Our International sales were up 69.9%
- Gross margin % was up 8.5%
- Gross profit up 22.8%
- Operating costs down 7.8% (14.4% excluding USA costs)
- Continued to reduce slow moving inventory (warehouse capacity reduced by 60%)

These initiatives include:

- Growing international sales, with better margins
- Investment in direct to retailer distribution in the USA
- Improved margins and reducing risk through owned brand vs agency sales mix
- Replacement of non-profitable agency products
- Implemented cost saving initiatives
- Reduced excess inventory

The Company has had great success with the progress of its own brands, particularly with the Messi Footbubbles. The Company has extended the licencing agreement to include a number of additional new products which will be launched in the coming months.

Whilst the USA sales have not yet progressed to the levels expected, there has been significant progress in obtaining a broad distribution base in a number of mid-stream accounts which should start to deliver appropriate returns.

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In Australia there has been a continued reduction of slow moving inventory which has had some impact on margins. There have been a number of new agencies and products which have offset some of the lower margins from inventory clearances, driven by renewed focus on food & confectionery, toys and home lifestyle products.

The Company has managed to reduce operating costs by 8% over the same period last year, primarily driven by significant reduction in warehousing and logistics costs. Some of the savings have been used to invest in the USA and own brands development, ensuring adequate resources to drive the long term growth of the Company.

Interest costs have risen over the period due to higher debt levels coupled with higher interest rates. Whilst the Company has improved its management over inventory, accounts receivable and fixed assets, the level of debt has increased due to the trading loss.

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 are having a progressive positive impact on the business. Our improved operating performance is expected to continue into the second half of FY16 and into FY17.

Dividend

No dividend has been declared and a dividend is unlikely until the Company returns to a profit and reduces its current core debt levels. The declaration of dividends is subject to Bank approval.

Bank

The Company has re-established its banking facilities through to November 2018 (overdraft facility June 2017) with its primary lender, National Australia Bank (NAB). A condition of the change in facilities was to raise additional capital that will support the Company's strategic direction of global expansion, particularly in the USA, of our owned and manufactured brands. There has been no change in the overall facility limits however the facility provides greater flexibility to support the business initiatives and is sufficient for the Company's base business.

Had the facilities been amended by 31st January 2016 our current liabilities would have decreased from $61.9 million to $33.9 million, and non-current liabilities would have increased from $0.3 million to $28.0 million.

Restatement of prior period goodwill

In preparing the impairment assessment at the half year, and as a result of evaluating the expected impact of the new financing agreement, an adjustment to goodwill was identified in respect of prior periods due to an error in the value-in-use model used. This amendment has neither cash flow impact nor any impact on future earnings of the Company. Details are disclosed in Note 1.

Impairment of other intangibles

Due to the previous litigation around the Floaties brand, the Company limited any investment in the brand. Since the resolution of the litigation and the Company obtaining full ownership of the brand, the Company has recommenced the growth strategy initiated when the Company initially acquired the brand. However due to its stage of progression, a conservative view on the key assumptions around future forecast and expected useful life (the brand has been in existence for 52 years) has been applied and as a result an Impairment charge of $377k has been made to the brand as required by the accounting standards. The Company is confident that it will be able to re-build the brand to its full potential in the foreseeable future.

Auditor's independence declaration

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

Rounding off of amounts

The Company is a company of the 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.

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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 2016

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Deloitte.

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

31 March 2016

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 2016, 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

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Half-Year Ended 31 January 2016

		For the half-year ended		
		31 January 2016	31 January 2015 Restated	31 January 2015 Previously Reported
	Note	$'000	$'000	$'000
Continuing Operations				
Revenue		57,066	50,435	50,435
Cost of sales of goods		(39,385)	(36,040)	(36,040)
Gross profit		17,681	14,395	14,395
Other Income		459	975	975
Warehouse and distribution		(2,858)	(4,375)	(4,375)
Marketing and selling		(7,338)	(7,260)	(7,260)
Administration and finance		(7,857)	(7,952)	(7,952)
Earnings before interest, taxation, depreciation and amortisation (EBITDA) excluding impairment		87	(4,217)	(4,217)
Impairment charge	4	(377)	(29,026)	(11,120)
EBITDA		(290)	(33,243)	(15,337)
Depreciation and amortisation expenses		(1,339)	(1,969)	(1,969)
Finance costs		(1,800)	(1,348)	(1,348)
Loss before income tax		(3,429)	(36,560)	(18,654)
Income tax (expense)		(67)	(9,454)	(9,454)
Loss for the period from continuing operations		(3,496)	(46,014)	(28,108)
Discontinued operations				
Loss for the period from discontinued operations		(104)	(426)	(426)
Loss for the period		**(3,600)**	**(46,440)**	**(28,534)**
Other comprehensive income (net of tax)				
Items that may be reclassified subsequently to profit or loss				
Exchange differences arising on translation of foreign operations		(132)	124	124
Fair value (loss) / gain on cash flow hedges		70	(141)	(141)
		(62)	(17)	(17)
Total comprehensive loss attributable to members of Funtastic Limited		**(3,662)**	**(46,457)**	**(28,551)**
Earnings per share		Cents	Cents	Cents
From continuing and discontinued operations				
Basic (cents per share)		(0.54)	(6.96)	(4.27)
Diluted (cents per share)		**(0.54)**	**(6.96)**	**(4.27)**
From continuing operations				
Basic (cents per share)		(0.52)	(6.90)	(4.21)
Diluted (cents per share)		**(0.52)**	**(6.90)**	**(4.21)**

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

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Condensed Consolidated Statement of Financial Position as 31 January 2016

	Note	As at 31 January 2016 $'000	As at 31 July 2015 Restated $'000	As at 31 July 2015 Previously Reported $'000
Current Assets				
Cash		985	904	904
Trade and other receivables		11,854	10,136	10,136
Inventories		15,055	16,563	16,563
Other		2,163	3,372	3,372
Other Financial Assets		-	38	38
Total Current Assets		30,057	31,013	31,013
Non-Current Assets				
Property, plant and equipment		1,584	1,750	1,750
Goodwill	3	14,163	14,163	39,165
Other intangibles	4	14,319	15,427	15,427
Deferred tax assets		3,246	3,367	3,367
Other assets		329	405	405
Total Non-Current Assets		33,641	35,112	60,114
Total Assets		63,698	66,125	91,127
Current Liabilities				
Trade payables		8,364	11,615	11,615
Borrowings		48,905	42,431	42,431
Provisions		974	1,080	1,080
Other		3,037	4,632	4,632
Tax liabilities		244	195	195
Other financial liabilities		372	435	435
Total Current Liabilities		61,896	60,388	60,388
Non-Current Liabilities				
Borrowings		-	26	26
Provisions		-	227	227
Deferred tax liabilities		162	254	254
Other		129	115	115
Total Non-Current Liabilities		291	622	622
Total Liabilities		62,187	61,010	61,010
Net Assets		1,511	5,115	30,117
Equity				
Issued capital	5	208,372	208,372	208,372
Accumulated losses		(207,650)	(204,050)	(179,048)
Reserves		789	793	793
Total Equity		1,511	5,115	30,117

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

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	For the half-year ended 31 January 2016 $'000	31 January 2015 $'000
Cash flows from operating activities		
Receipts from customers	57,782	60,834
Payments to suppliers and employees	(61,926)	(67,817)
Interest and other costs of finance paid	(1,800)	(1,341)
Net cash used in operating activities	(5,944)	(8,324)
Cash flows from investing activities		
Interest and other investment income received	-	325
Payments for property, plant and equipment	(265)	(413)
Payments for intangible assets	(180)	(746)
Net cash used in investing activities	(445)	(834)
Cash flows from financing activities		
Proceeds from borrowings	7,448	7,636
Repayment of borrowings	-	(279)
Repayment of commercial bills	(1,000)	-
Dividends paid to the owners of the Company	-	(2)
Net cash provided by financing activities	6,448	7,355
Net increase/(decrease) in cash held	59	(1,803)
Cash and cash equivalents at the beginning of the half-year	904	4,909
Effect of exchange rate changes on cash held in foreign currencies	22	(280)
Cash and cash equivalents at the end of the half-year	985	2,826

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

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	Share Capital	Accumulated Losses (Restated refer Note 1)	Foreign Currency Translation Reserve	Equity- settled Employee Benefits Reserve	Cash Flow Hedging Reserve	Total (Restated refer Note 1)
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 August 2014	208,372	(147,571)	(976)	1,941	(62)	61,704
Loss for the period	-	(46,440)	-	-	-	(46,440)
Other comprehensive income	-	-	124	-	(141)	(17)
Total comprehensive income / (loss)	-	(46,440)	124	-	(141)	(46,457)
Recognition of share-based payments	-	-	-	137	-	137
Balance at 31 January 2015	**208,372**	**(194,011)**	**(852)**	**2,078**	**(203)**	**15,384**
Balance at 1 August 2015	208,372	(204,050)	(1,029)	2,099	(277)	5,115
Loss for the period	-	(3,600)	-	-	-	(3,600)
Other comprehensive income	-	-	(132)	-	70	(62)
Total comprehensive income / (loss)	-	(3,600)	(132)	-	70	(3,662)
Recognition of share-based payments	-	-	-	58	-	58
Balance at 31 January 2016	**208,372**	**(207,650)**	**(1,161)**	**2,157**	**(207)**	**1,512**

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

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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 cost, except for the revaluation of certain non-current assets and financial instruments. 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 Company is a Company of the kind referred to in ASIC Class Order 98/100, 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.

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 Company's 2015 annual financial report for the financial year ended 31 July 2015, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Going concern basis

The financial report has been prepared on a 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 from continuing operations of $3,496,000 (Half year 31 January 2015: $46,014,000) and operating cash outflow of $5,944,000 (Half year 31 January 2015: $8,324,000) in the current financial period are a significant improvement over the same period last financial year, however not sufficient to cover the interest and investment in replacement assets. The cost savings, margin improvement and securing of additional agency partners have resulted in our Australian sales market returning a positive contribution. The continued investment in the development of own brands has improved the International sales whilst the investment in direct to retail distribution model in the USA is still in its infancy stages and not yet delivering a profit. Based on management's forecasts, the Group expects to continue to improve its financial performance and return to a profit over the next twelve months.

Whilst there is a net current liability position of $31,839,000 the financial statements have been prepared on a going concern basis. In March 2016 The Company renegotiated its banking facilities which have been extended to the 1st November 2018, (Overdraft June 2017). As part of the restructure $27,964,500 has been converted to long term debt, with the balance of the total $54,214,500 ($55,214,500 prior period) covering working capital and operating facilities. Had this change taken place before the end of the half year end, the net current liability position would have been $3,875,000. The bank overdraft limit, which is a part of the total facility, has a maturity date of 30 June 2017. The change in banking facilities requires the Company to raise additional capital to support the Group's continued investment in the USA and in own brands. The capital raising will commence on or about 1st April 2016. There is no minimum capital raising requirement set by the bank and any capital raised will not be used to reduce the Group's bank facilities. The banking facility also prohibits the Group from declaring or paying dividends to shareholders without the approval of the Bank.

Based on the Group's forecasts, the revised facility is expected to provide sufficient flexibility to meet Funtastic's fluctuating cash flow requirements and meet its banking obligations. Furthermore, the planned capital raising will provide additional headroom should it be required. However, in assessing the Group's cash flow forecasts, the Directors note the following significant uncertainties:

- Although the Directors are confident the cash flow forecasts are realistic and achievable, and the opportunity to expand offshore is imminent with resources mobilised and customer accounts being established, the rate of growth in new territories can be impacted by unforeseen events and therefore can be hard to accurately forecast. Furthermore due to the concentration of the Australian retail environment coupled with short product lifecycles, forecast accuracy can be challenging.
- Whilst certain months are forecasted to have limited headroom to the facility limits, cash flow forecasts have been assessed against possible sensitivities scenarios and the Company is satisfied that the headroom is sufficient. In the event that a potential shortfall does arise such shortfalls would have to be mitigated by the Group negotiating extended payment arrangements with creditors, or early payment arrangements with major customers.

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NOTE 1: Significant accounting policies - Going concern basis (continued)

- The revised banking facilities include a review event requiring that any funds from the planned capital raising must be received by the bank by 30 June 2016. The capital raising process will commence from the 1st April 2016 and is expected to be completed by the 3rd June 2016. The Directors are confident that the capital raising will be successful where certain members of management will be participating. There is also a requirement for shareholder approval at an Extraordinary General Meeting for the Directors to acquire shares under the planned capital raising scheduled included within the timeframe of the capital raising.
- The Directors' cash flow forecast assessment assumes that the capital raising will successfully raise funds of at least $2 million by 30 June 2016. The funds are required to continue the development and global distribution of its own brands and will not reduce the facility limits provided by the Bank. Should the amount raised be lower than $2 million, the Company will reassess the level and timing of investment in its expansion plans ensuring that the Company operates within its banking facilities.

Considering that:

- management intend to commence the capital raising on or about 1st April 2016, with completion expected before 30th June 2016;
- the recent completion of the Group's negotiated banking facilities; and
- after having carefully assessed the Group's forecasted future cash flows and its ability to defer or reduce the timing or quantum of any investment in international markets expansion and owned brands should the need arise;

the directors believe that the Group will continue to operate as a going concern for at least the next 12 months and it is therefore appropriate to prepare the financial statements on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

Should the Group forecasts vary significantly and it is unable to manage any shortfall through alternative sources of funding outlined above, a material uncertainty would exist as to whether the Group will be able to continue as a going concern and therefore whether it will realise its assets and discharge its liabilities in the normal course of business.

The half-year report does not include any adjustments relating to the recoverability and classification of the recorded asset amounts, nor to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

NOTE 1: Significant accounting policies

New and revised Standards and Interpretations

Amendments to AASBs and the new Interpretation that is mandatorily effective for the current reporting period

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

AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'

The adoption of the amending Standard does not have any impact on the disclosures or the amounts recognised in the Group's condensed consolidated financial statements.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 '*Financial Instruments'*, and the relevant amending standards	1 January 2018	31 July 2019
AASB 2014-4 '*Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'*	1 January 2016	31 July 2017
AASB 15 *'Revenue from Contracts with Customers'*, AASB 2014-5 '*Amendments to Australian Accounting Standards arising from* AASB 15' and AASB 2015-8 '*Amendments to Australian Accounting Standards – Effective Date of AASB 15'*	1 January 2018	31 July 2019
AASB 16 *'Leases'*	1 January 2019	31 July 2020
AASB 2015-1 '*Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards* 2012-2014 Cycle'	1 January 2016	31 July 2017
AASB 2015-2 '*Amendments to Australian Accounting Standards – Disclosure Initiative*: Amendments to AASB 101'	1 January 2016	31 July 2017

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

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 units 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 3 may affect the recoverable amount of the cash generating units.

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NOTE 1: Significant accounting policies – Key sources of estimation uncertainty (continued)

➢ *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 royalties 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 regularly 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 asset in respect to revenue tax losses of approximately two (2) to three(3) years future profits based on the expected future taxable income. The final amount recoverable will depend on losses being available under the “Continuity of Ownership Test” where applicable the “Same Business Test” and the group achieving further taxable income. Management assess both “Continuity of Ownership Test” and availability of taxable income at each balance date. Based on the current assessment, Management believe it is appropriate to continue recognising two (2) years of future taxable income using current budget forecasts. No additional deferred tax asset has been taken up, during the six months ended 31 January 2016 (2015: Nil). Tax losses as at 31 January 2016 total $75.9m, of which $7.2m (31 July 2015: $7.2m) have been recognised and carried on the Balance Sheet as at the period end.

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NOTE 1: Significant accounting policies

Restatement of prior period goodwill

In the preparation of the impairment assessment at the half year, and as a result of evaluating the expected impact of the new financing agreement in future periods, an adjustment to goodwill was identified in respect of prior periods. The background and nature of the adjustment is as follows:

- In completing the prior period impairment assessments, a critical judgement was made to include the trade finance facility within the determined carrying value of assets against which the recoverable amount of value-in-use models were assessed. This decision was based upon the Group's assessment of this facility as "working capital" in nature, providing extended creditor trading terms.
- In determining the forecast cash flows, cash flows from the continued utilisation of the trade finance facility were modelled into the forecast. However, not all of the related cash flows were modelled correctly in relation to the interest costs and terminal repayment of the facility. On further investigation, it has since been determined that the trade finance facility should be considered debt, and therefore excluded from the carrying value and the related cash flows from its utilisation should be removed from the value-in-use model. This is considered to be an error in the value-in-use model, and the impact of the removal of the trade finance facility gives rise to impairment at the 31 July 2014, 31 January 2015 and 31 July 2015 reporting periods

Comparative information in the financial statements has been restated. This has resulted in:

- An increase in accumulated losses at 1 August 2014 of $6.056 million, and a corresponding decrease in goodwill and total equity.
- An increase in the loss for the half-year ended 31 January 2015 of $17.906 million, and a corresponding decrease in goodwill and total equity of $23.962 million.
- An increase in the loss for the year ended 31 July 2015 of $18.946 million, and a corresponding decrease in goodwill and total equity of $25.002 million.

The net effect of these amendments as at 31 July 2015 was an increase in accumulated losses and decrease in goodwill of $25.002 million.

The following tables summarise the impact on individual line items in the Group's financial statements.

Consolidated statement of profit or loss and other comprehensive income	**Year ended 31 July 2015 as previously reported $'000**	**Re-statement $'000**	**Year ended 31 July 2015 as re-stated $'000**	**Half year 31 January 2015 as previously reported $'000**	**Re-statement $'000**	**Half year 31 January 2015 as re-stated $'000**
Impairment charge	(11,120)	(18,946)	(30,066)	(11,120)	(17,906)	(29,026)
Loss for the period	**(37,533)**	**(18,946)**	**(56,479)**	**(28,534)**	**(17,906)**	**(46,440)**

	31 July 2015 as previously reported $'000	**Re-statement $'000**	**31 July 2015 as re-stated $'000**	**31 July 2014 as previously reported $'000**	**Re-statement $'000**	**31 July 2014 as re-stated $'000**
Goodwill	39,165	(25,002)	14,163	49,995	(6,056)	43,939
Net assets	**30,117**	**(25,002)**	**5,115**	**67,760**	**(6,056)**	**61,704**
Retained losses	(179,048)	(25,002)	(204,050)	(141,515)	(6,056)	(147,571)
Total equity	**30,117**	**(25,002)**	**5,115**	**67,760**	**(6,056)**	**61,704**

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NOTE 2: Segment information

Determination and presentation of operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components, and for which discrete financial information is available. An operating segment's operating results are reviewed regularly by the Chief Executive Officer to make decisions about resources to be allocated to the segment and assess its performance.

The Group has one reportable segment under AASB 8.

Geographical Information

The Group operates in three principal geographical areas – Australia, Hong Kong and USA. The Group's revenue from external customers and information by geographical location is as follows:

	Revenue from External Customers		**Non-Current Assets[i]**		
	For the half-year ended		**As at**		
	31 January 2016 $'000	*31 January 2015 $'000*	**31 January 2016 $'000**	*31 July 2015 $'000 Restated*	*31 July 2015 $'000 Previously Reported*
Australia	***44,254***	*42,894*	***30,180***	*30,155*	*55,157*
Hong Kong	***11,622***	*7,511*	***194***	*1,479*	*1,479*
USA	***1,190***	*30*	***23***	*24*	*24*
	57,066	*50,435*	***30,397***	*31,658*	*56,660*

[i]Non-current assets exclude financial instruments, deferred tax assets, post-employment benefit assets, and assets arising from insurance contracts. Goodwill and other intangibles have been allocated to Australian geography as this is the Company's main domicile and these assets are not allocated to a level lower than the consolidated group.

Information about major customers

Included in revenues of Australia of $44,254,000 are revenues of approximately $29,187,000 (2015:$32,624,000), which arose from sales to that region's four largest customers.

Included in revenues of Hong Kong of $11,622,000, are revenues of approximately $3,501,000 (2015:$4,526,000), which arose from sales to that region's four largest customers.

Included in revenues of USA of $1,190,000, are revenues of approximately $943,000, which arose from sales to that region's four largest customers.

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NOTE 3: Non-current assets - Goodwill

	31 January 2016 $'000	31 July 2015 Restated $'000	31 July 2015 Previously Reported $'000
Carrying amount			
Balance at the beginning of financial year	14,163	43,939	49,995
Impairment losses for the year		(29,776)	(10,830)
Balance at period ended	14,163	14,163	39,165

Impairment Assessment

Funtastic is required to perform an impairment test annually on goodwill and other indefinite life intangible assets for each CGU 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 indicator of impairment at 31 January 2016:

- Despite a significant improvement in the performance of the Company over the past 6 months, the Company earnings before depreciation have been insufficient to cover the interest costs.

As a result, the Group assessed the recoverable amount of the CGU, related goodwill and intangibles at 31 January 2016 using the value-in-use approach.

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:

- Long term sustainable gross margin of 33.3% and EBITDA margin of 7.2% based upon the forecast product sales and customer mix and assumptions about the fixed cost base;
- The forecast for the next 12 months includes expectations that between 5%-10% of the Group's revenue will be from the USA. The forecast from FY18/19 into the terminal value calculation assumes that the Group's EBITDA contribution from the USA will be at a break-even level. Given the stage of the Group's expansion into the USA, these revenue and EBITDA assumptions have a higher level of uncertainty
- Terminal growth rate of 2.0% which is materially consistent with long term economic growth in the key markets in which the CGU operates; and
- Post-tax discount rate of 10.5%, which reflects the risks specific to the CGU.

Cash flow forecasts for the CGU are based on forecast sales and gross margins for the next 12 months. The sales forecast assumes that the CGU will achieve higher sales than the previous 12 months particularly in the international market (including the USA). Margins used in the forecast are based upon a bottom up forecast approach, historical and anticipated product margins and assumptions on projected sales mix and rebate arrangements. Year 1 (FY16/17) and 2 (FY17/18) in the cash flow forecast have been risk adjusted to achieve 80% and 90% respectively of the anticipated sustainable EBITDA of 7.2%.

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NOTE 3: Non-current assets - Goodwill - (continued))

Outcome of assessment

The assessment completed at 31 January 2016 has resulted in a recoverable amount exceeds the carrying value. As such, no impairment has been recognised for the half year ended 31 January 2016 (31 January 2015: $28,736,000 was recognised as an impairment of goodwill)

Sensitivity analysis

Changes in the key assumptions in the table below would have the following approximate impact on the recoverable amount of the CGU at 31 January 2016:

	Change in variable	**Effect on recoverable amount**
		$'000
Gross margin (excluding USA)	1.00%	9,007
	-1.00%	-9,007
USA gross revenue (maintaining gross margin)	20.00%	5,596
	-20.00%	-5,596
Post tax discount rate	1.00%	-5,445
	-1.00%	6,901

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
Gross margin (excluding USA)	-1.00%	-3,632
USA gross revenue (maintaining gross margin)	-25.00%	-1,620
Post tax discount rate	1.50%	-2,383

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.

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NOTE 4: Non-current assets – Intangibles

	For the half year ended 31 January 2016 $'000	For the year ended 31 July 2015 $'000
Software	790	1,170
Brand names	725	725
Chill Factor Trademarks and patents	9,080	9,348
Licenses, distribution agreements and supplier relationships (i)	3,724	4,184
Net book value - Intangibles	14,319	15,427

(i) Note: this includes the Floaties brand where an impairment charge of $377k was recognised during the half year, refer below.

Impairment testing – Other Intangibles (Brands)

There were no indicators of impairment in respect of the various brands with the exception of the Floaties brand and hence only the Floaties brand has been assessed.

The brand recoverability has been assessed based on the royalty relief method by applying a market related royalty rate to the expected future sales and terminal growth rate. Projected sales were calculated based on historical sales, current budgets and forecasts. The estimated product life cycle was also included in the calculation.

Key assumptions

The following key assumptions were used:

- Royalty rates based on comparative rates and adjusted for key brand attributes
- Annual growth rate beyond 5 years of 2.5%
- Pre-tax discount rate of 10.5% and
- Estimated useful life of 20 years

Outcome of assessment

Due to the previous litigation around the Floaties brand, the Company limited any investment in the brand. Since the resolution of the litigation and the Company obtaining full ownership of the brand, the Company has recommenced the growth strategy initiated when the Company originally acquired the brand.
However due to its stage of progression a conservative view on the key assumptions around future forecast and expected useful life (the brand has been in existence for 52 years) has been applied and as a result an impairment charge of $377k has been made to the brand.

NOTE 5: Issued capital

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

	Number of shares	31 January 2016 Share capital $'000
Opening balance 1 August 2015	686,369,723	208,372
Shares issued under ESLS 4 in October 2015	9,110,000	-
Shares issued under ESLS 5 in December 2015	5,300,000	-
Closing balance 31 January 2016	700,779,723	208,372
Treasury shares	(33,610,000)	-
Adjusted closing balance	667,169,723	208,372

Includes shares issued under the Employee Share Loan Scheme through the Employee Share Plan Rules

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NOTE 5: Continued

Options- Employee Share Loan Schemes (ESLS)

During the period the following shares were issued under the ESLS:

- 4th October 2015: Tranche 4 (9,110,000) options vest on 4th October 2018; and
- 23rd December 2015: Tranche 5 (5,300,000) options vest on 23rd December 2018.

All options issued during the period were issued conditional upon continued employment with Funtastic at the vesting date.

NOTE 6: Commitments

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

NOTE 7: Subsequent events

In March 2016 the Company renegotiated its banking facilities which have been extended to the 1st November 2018, (Overdraft June 2017). As part of the restructure $27,964,500 has been converted to long term debt, with the balance of the total $54,214,500 ($55,214,500 prior period) covering working capital and operating facilities. There has not been other any matter or circumstance occurring subsequent to the end of the financial period, not already covered in the financial statements, that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

NOTE 8: Contingent Assets

	31 January 2016 $'000	31 July 2015 $'000
Final Madman working capital adjustment	**2,195**	**3,042**

On 31 July 2014, the Group entered into and completed a sale agreement to dispose of Madman Entertainment. Consequently, Madman Entertainment ceased to be a subsidiary of the Group at 31 July 2014. At 31 July 2014, the Company recognised an asset of $3.8m relating to the working capital adjustment due from the purchaser on final settlement in respect to the Madman sale.

During FY15, an independent review process was undertaken resulting in a determination that the amount receivable from Madman was $332,000. As at the end of the previous financial year, the Group had written down $3.5m against the receivable to reflect this determination. Whilst a provision has been made, the Group does not agree with the determination and is in the process of an appeal in respect of the determination to the extent of $2,527,000 inclusive of the carrying value in of $332,000.

The Company has subsequently been advised that the purchaser intends to commence warranty claim proceedings. No formal action has been lodged at the time of this report.

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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 2016

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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 2016, 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 23.

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 2016 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.

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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 2016 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*.

Emphasis of matter

Without modifying our conclusion, we draw attention to Note 1 in the financial report, which indicates that the consolidated entity incurred a net loss of $3,662,000 during the half year ended 31 January 2016 and, as of that date, the consolidated entity's current liabilities exceeded its current assets by $31,839,000. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Chris Biermann
Partner
Chartered Accountants
Melbourne, 31 March 2016