funtastic
LIMITED

2016 Annual Report

Contents

Chairman & CEO's Report

On behalf of the Board of Directors of Funtastic Limited we present to you our 2016 Annual Report.

The story so far

Two years ago the company conducted a strategic review of its business and market and identified an emerging trend of escalated retailer disruption to the traditional supply chain model which would negatively impact local suppliers. As a result, it embarked on a plan to restructure its business model to reduce the reliance of supplying agency products to a concentrated retail channel in Australia.

This plan required investment in resourcing, capability, capital expenditure and the establishment of new third party relationships to facilitate the development of new product IP and global distribution channels.

Whilst foundations have been set, the process of researching and testing various business models to best establish and manage its new product development processes and global distribution channels, has taken longer than originally anticipated. Despite the delays, the company has exciting new prospects in terms of product and distribution opportunities that will further add to its efforts to diversify.

The market environment in Australia has continued to be challenging with two of the company's major customers embarking on their own transformation plans and leadership changes that have impacted on the short term performance of the business.

It is anticipated that outcomes of these plans will lead to increased vertical integration resulting in further consolidation of their traditional supplier base. Whilst challenging, this further confirms the validity of our diversification strategy.

Results

The Group's Earnings Before Interest, Depreciation and Amortisation (EBITDA) from continuing operations was a loss of $8.2m before accounting for an impairment charge of $6.4m. This was higher than the expected EBITDA loss of $6.5m – $7.5m previously indicated, with the difference mainly attributable to a higher than expected inventory write down associated with the LeapFrog exit.

The following adverse factors significantly contributed to this lower than expected result:

1. Acceleration of the termination of the LeapFrog distribution partnership, resulting in sales at lower margins and write-downs on the residual inventory;
2. Slower than expected international sales;
3. Delay of key product launches due to delayed quality control assessments, now moved into the FY17 financial year;

Chairman & CEO's Report

continued

4. Leadership changes at some of our key trading partners, resulting in unexpected reductions in purchases associated with inventory consolidation.

The impairment charge was also higher than previously indicated due to a change in the calculation methodology. The assessment uses a more conservative view of future earnings and assumes an income period of other intangible assets over a 20 year (rather than infinite) period.

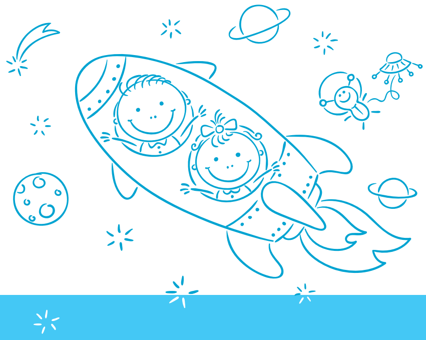
The next chapter

The company has implemented significant measures to combat this downturn in performance and the Board is confident that this will reduce the trading risk and improve performance. The principal measures are:

1. A 10% – 20% salary reduction for Senior Management Team for the FY17 year effective from 1st June 2016;
2. Identified and implemented reductions in fixed costs, mainly staff, warehousing and office costs of an annualised $5.2 million;
3. Improved margins through reduced trade discounts, pricing controls for new products and significantly lower level of clearance activity;
4. Major reduction in inventory levels as a result of aggressive clearance programs in FY16, a planned shift to more FOB business and improved controls over planning and purchasing;

The Board's key strategies for FY17 performance are:

1. Continuing to invest in product innovation in both our own brands, existing partnerships and exciting new innovations from around the world. For example:
   a. Relocation of the Product development team from Hong Kong to lower cost area in a smaller office in Valencia, Spain to drive product innovation and development of our own established brands (e.g. Chill Factor and Zap Chef line extensions) as well was new innovation with a particular focus on the toy category;
   b. Continuing our exceptional partnership with Leo Messi and expanding our Messi kids range;
   c. Strengthening our IP protection strategy with a number of successful claims against infringers;
   d. Securing the distribution rights for PowerCube by Allocacoc, winner of the RedDot award 2014; and
   e. Supporting the ever innovative Razor brand with the HoverTrax 2.0 set to be a great success.
2. Growing international sales profitably to reduce reliance on Australia.
3. Broadening our portfolio, with a larger number of products/agencies in the following segments:
   a. Toys, Sporting and Party Items;
   b. Confectionery and Health Food; and
   c. Lifestyle.
4. Expanding our customer base through programs such as direct to consumer through on-line and as seen on TV along with and other media to reduce our reliance on large retailers.



Bank

The Company's bank facilities with National Australia Bank have been restructured, enabling the business to operate in an efficient and effective manner. In January, the facilities were extended through to November 2018 (overdraft facility June 2017). The National Australia Bank remains a key long term partner, one who has been extremely supportive and understands the magnitude of the changes required to deliver the turnaround strategy. In accordance with Accounting Standards, these facilities have been classified as current in the Company's Balance Sheet as there are review clauses in place which are effective in the next 12 months. Had these review clauses not been in place, the bill finance of $27,965,000 would otherwise have been classified as long term.

Outlook

The company is now significantly more stable than in previous financial periods, with enhanced internal controls, sound cash management principles, reduction in excess inventories and appropriate short term financing. The first quarter has started positively and the Board is confident that the company will meet its targets for 2017 as a profitable entity.

The company continues its strategy of re-defining its core business and rightsizing the organisation for the future with the appropriate focus on the right products and markets. The organisation has gone through significant structural changes appointing key people in positions aligned to the company's long term strategy. This has resulted in increased employee engagement with sound commitment and capabilities supported by appropriate incentive programs.

The company continues its focus on developing a strong, diverse and relevant range of new and innovative products enabling the company to effectively leverage its cost base. Trade and distributor inventory are currently operating at normal levels that will ensure a more solid performance.

The Directors would like to thank all of our staff, shareholders, bankers, suppliers, key agency partners and customers for their ongoing loyalty and support.

Shane Tanner
Chairman
of the Board

Nir Pizmony
Managing Director and
Chief Executive Officer

Contents

Company Information

Directors

Shane Tanner
Chairman and Independent Non-Executive Director

Nir Pizmony
Managing Director and Chief Executive Officer

Stephen Heath
Independent Non-Executive Director

Linda Norquay
Independent Non-Executive Director

Grant Mackenzie
Executive Director and Chief Operating officer

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 Corporate Governance principles that guide the operations of Funtastic Limited ("Funtastic" or "Company") are detailed in this statement. Funtastic respects and endorses the ASX Corporate Governance Council's Principles and Recommendations. The Board believes that it has been compliant with the spirit of the ASX Corporate Governance Council's principles and recommendations throughout the 2016 financial year.

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

Principle 1: Lay solid foundations for management and oversight

Role and Responsibility of the Board

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

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

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

Board members have complete and open access to management.

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

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

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

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

Diversity

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

Funtastic has established a Diversity Policy which is published on the Company's website. As at 31 July 2016 the group's mix of employees was as follows:

	Female	Male	Total
General employees	36	16	52
Middle managers	19	11	30
Senior managers	4	8	12
Board	1	4	5
Total	**60**	**39**	**99**

Principle 1: Lay solid foundations for management and oversight continued

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

Director Competencies

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

New directors are provided with a letter of appointment setting out the Company's expectations, their responsibilities, rights and the terms and conditions of their appointment. All new directors participate in an induction program which covers the operation of the Board and its committees and financial, strategic, operations and risk management issues.

Principle 2: Structure of the Board to add value

Nomination Committee

The current members of the Nomination Committee are Mr Shane Tanner (Chairman), Ms Linda Norquay and Mr Stephen Heath.

The role of the Nomination Committee is to assist the Board in ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of a Director, having regard to the law and the highest standards of governance, by:

- assessing the skills, knowledge, experience and diversity required on the Board and the extent to which they are represented;
- establishing processes for the identification of suitable candidates for appointment to the Board; and
- overseeing succession planning for the Board.

The principal purposes of the Committee are to:

- establish a formal and transparent procedure for the selection and appointment of new directors to the Board;
- regularly review the succession plans in place for membership of the Board to ensure that an appropriate balance of skills, experience and expertise is maintained;
- review the time commitment required from a non-executive director and whether non-executive directors are meeting this requirement; and
- take all reasonable steps to ensure that all individuals nominated for appointment to the Board as a non-executive director, expressly acknowledge prior to their election that they are able to fulfil the responsibilities and duties expected of them.

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

Board Membership

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

- the Board should comprise between 3 and 9 directors;
- the maximum age for directors is 72;
- the Board should comprise directors with a broad range of skills and experience; and
- the term of any appointment is subject to continuing shareholder approval.

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

At the commencement of the financial year, the Board comprised of three non-executive directors and two executive directors (the Chief Executive Officer and the Chief Finance Officer/Chief Operating Officer). The details of each director's qualifications, experience and skills are set out on page 13 and 14 of the Annual Report.

Principle 2: Structure of the Board to add value continued

Board and Director Independence

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

Currently, three of the five directors are considered to be independent. It is the Board's view that Mr Shane Tanner, Ms Linda Norquay and Mr Stephen Heath are independent directors.

Mr Nir Pizmony and Mr Grant Mackenzie are Executive Directors and are deemed not to be independent directors.

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

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

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

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

Work of Directors

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

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

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

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

Conflict of Interest

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

Independent Professional Advice

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

Principle 3: Act ethically and responsibly

Ethical Standards

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

Ethical Compliance

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

Principle 3: Act ethically and responsibly continued

Dealings in Funtastic shares by Directors, Officers and Employees

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

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

(a) From the close of the accounts (on 31 January each year) to 2 business days after the publication to the ASX of the half-year financial results; i.e. the Appendix 4D (a 2-business day blackout period would apply from the publication to the ASX of the final half-year financial report in the event that they were materially different from the Appendix 4D results);

(b) From the close of the accounts (on 31 July each year) to 2 business days after the publication to the ASX of the full-year financial results; i.e. the Appendix 4E (a 2-business day blackout period would apply from the publication to the ASX of the final full-year financial report in the event that they were materially different from the Appendix 4E results); and

(c) Forty eight hours after the public release of any market guidance update.

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

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

Principle 4: Safeguard integrity in corporate reporting

Audit, Risk and Compliance Committee

Funtastic has noted the ASX Corporate Governance Council's best practice recommendation that listed companies have an independent director as Chairman of the Audit, Risk and Compliance Committee. This Committee is comprised of three non-executive directors: Ms Linda Norquay (Chairman), Mr Shane Tanner and Mr Stephen Heath.

Audit, Risk and Compliance Committee Charter and Responsibilities

The Committee's key responsibilities and functions are to:

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

Meetings of the Audit, Risk and Compliance Committee

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

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

Reporting by the Audit, Risk and Compliance Committee

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

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

Principle 4: Safeguard integrity in corporate reporting continued

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

- recommending to the Board the appointment and removal of the external auditors and reviewing the terms of engagement;
- approving the audit plan of the internal and external auditors;
- monitoring the effectiveness and independence of the external auditor; obtaining assurances that the audit is conducted in accordance with the Auditing Standards and all other relevant accounting policies and standards;
- providing recommendations to the Board as to the need for and the role of an internal audit function;
- reviewing and appraising the quality of audits conducted by the internal and external auditors and confirming their respective authority and responsibilities;
- monitoring the relationship between management and the external auditors;
- determining the adequacy, effectiveness, reliability, and appropriateness of administrative, operating and internal control systems and policies;
- evaluating compliance with approved policies, controls, and with applicable accounting standards and other requirements relating to the preparation and presentation of financial results;
- overseeing financial reporting and disclosure practice and the resultant information;
- reviewing (in consultation with management and external auditors) the appropriateness of the accounting principles adopted by management in the composition and presentation of financial reports and approving all significant accounting policy changes;
- evaluating the structure and adequacy of business continuity plans;
- determining the appropriateness of insurances on an annual basis;
- reviewing and making recommendations on the strategic direction, objectives and effectiveness of financial and operational risk management policies;
- overseeing the establishment and maintenance of processes to ensure that there is:
  - an adequate system of internal control, management of business risks and safeguard of assets; and
  - review of internal control systems and the operational effectiveness of the policies and procedures related to risk and control;
- evaluating exposure to fraud and monitoring investigations of allegations of fraud or malfeasance;
- reviewing corporate governance practices for completeness and accuracy;
- determining the adequacy and effectiveness of legal compliance systems; and
- providing recommendations as to the reporting of and propriety of related party transactions.

Management Certification Process

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

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

The key steps in the certification process are as follows:

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

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

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

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

Principle 5: Make timely and balanced disclosure

Communication and Disclosure

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

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

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

Principle 6: Respect the rights of security holders

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

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

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

Principle 7: Recognise and manage risk

Recognising and Managing Risk

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

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

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

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

Internal Audit Function

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

Principle 8: Remunerate fairly and responsibly

Remuneration and Evaluation Committee

The members of the Remuneration and Evaluation Committee are Mr Stephen Heath (Chairman), Shane Tanner and Ms Linda Norquay.

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

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

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

Principle 8: Remunerate fairly and responsibly continued

Remuneration and Evaluation Committee Charter and Responsibilities

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

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

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

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

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

Remuneration Policy

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

Remuneration Disclosure

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

Directors' Report

Directors

Your Directors present their report on the Group consisting of Funtastic Limited and the entities it controlled at the end of, or during, the year ended 31 July 2016.

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

Shane Tanner
FCPA, ACIS
Chairman and Independent Non-Executive Director

Appointed to the Board in March 2009 as an Independent Non-Executive Director and appointed as Chairman of the Board effective from the AGM on 21 May 2010. Mr Tanner is Chairman of the Nomination Committee and a member of the Remuneration and Evaluation Committee and the Audit, Risk and Compliance Committee.

Mr Tanner is also Chairman of BGD Corporation and Paragon Care Ltd. He is a former CEO of Mayne Nickless Diagnostic Services and Director of Sterihealth Ltd. Mr Tanner has vast commercial and financial experience.

Nir Pizmony
Managing Director and Chief Executive Officer

Appointed to the Board in August 2009 as an Executive Director. He was appointed as Managing Director & Chief Executive Officer on 1 August 2014. Mr Pizmony has over twenty-five years' experience in consumer products. He has founded, developed and subsequently sold two successful toy companies. Mr Pizmony's knowledge and reputation in the toy industry is well proven both in Australia and globally.

Stephen Heath
Independent Non-Executive Director

Appointed to the Board in October 2010 as an Independent Non-Executive Director. Mr Heath is a member of the Audit, Risk and Compliance Committee, the Nomination Committee and Chairman of the Remuneration and Evaluation Committee.

Mr Heath has extensive retail experience comprising 18 years across iconic Australian retail brands including Harvey Norman, Rebel Sport, Godfreys, International Cleaning Solutions Holdings and Fantastic Holdings Limited. Mr Heath was CEO of Rebel Sport during its public listing on the ASX. He also spent 5 years with Sharp Corporation managing the retail accounts of major retailers such as Harvey Norman, Myer, David Jones and Kmart.

Directors continued

Linda Norquay
B.Com, CA, GAICD
Independent Non-Executive Director

Appointed to the Board in September 2011 as an Independent Non-Executive Director. Ms Norquay is a member of the Nomination Committee, the Remuneration and Evaluation Committee and Chairman of the Audit, Risk and Compliance Committee.

Ms Norquay is Chief Financial Officer at Illyria Pty. Ltd. Ms Norquay brings a wealth of financial and strategic experience to Funtastic Limited and has previously held senior financial and management roles at Allco Finance Group, Macquarie Bank Limited and Barclays Bank Plc in London.

Grant Mackenzie
B.Acc, CA, MBA, GAICD
Executive Director, Chief Financial Officer and Company Secretary

Appointed to the Board as Executive Director and to the position of Chief Operating Officer in August 2014. Mr Mackenzie is also the Chief Financial Officer & Company Secretary of the Company.

Mr Mackenzie has over 20 years' experience in various senior executive roles with significant experience in brand management. His most recent role prior to joining Funtastic was Finance Director for Brown-Forman Australia. Grant brings with him a successful record of international, strategic and commercial management such that he is considered a key asset to the Group in executing its long term geographical expansion of its own brands.

Directorships of other listed companies

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

Director	Company	Period
Shane Tanner	Vision Eye Institute Limited	2004 to October 2015
	BDG Corporation Limited	November 2014 to current
	Paragon Care Limited	2005 to current
Stephen Heath	Fantastic Holdings Limited	2013 to January 2016
	Temple and Webster Group Limited	March 2016 to current

Company Secretary

Mr Mackenzie was appointed to the position of Company Secretary on 1 November 2013.

Principal activities

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

Subsequent events

There has not been any matter or circumstance occurring subsequent to the end of the financial year 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.

Environmental regulations

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

Review operations

Key strategic achievements:

- Continued development of our own brands
- Continued development of our global distribution network
- Continued expansion into lifestyle and health foods

Key operating achievements:

- Continued reduction of slow moving and excess inventory resulting in a 50% reduction in warehouse space
- Implemented improved product cost and pricing controls
- Stabilised the business:
  - Implemented significant cost reduction initiatives
  - Made key organisational changes
  - Enhanced our capabilities
  - Focus on key drivers of growth
  - Re-aligned banking facilities
- Strengthened our relationships with key agency partners
- Expansion in range and diversity of Messi products
- Leveraged the Australian distribution network securing new innovative products including:
  - Allocacoc
  - Identity Games
  - Pom Pom Wow!

Key financial results continuing operations:

- NPAT loss of $23.4m
- EBITDA loss of $8.2m (excluding impairment charge recognised in the period of $6.4m)
- Finance costs increased by 27% to $3.8m due to increased utilisation of the finance facilities
- Borrowings increased by $6.5m

Key Financials (Continuing Activities)

AUD'm	FY16	FY15	% Change
Revenue	90.9	105.9	▼ 14%
EBITDA	(14.6)	(36.7)	▲ 60%
PBT	(21.9)	(43.1)	▲ 49%
NPAT	(23.4)	(52.8)	▲ 56%
Basic EPS (cents)	(3.43)	(8.42)	▲ 57%
Dividend per share (cents)	N/A	N/A	N/A
ROE(i)	(3.91)	(1.58)	▼ 347%
Net Debt ($m)	48.2	41.5	▲ 16%
Gearing(ii)	(2.82)	8.14	▼ 135%

(i) NPAT/average shareholder equity.

(ii) Net debt/shareholder equity.

Outlook

Funtastic has developed a solid foundation that will enable it to continue to create, develop and market innovative brands that enrich lifestyles around the world, whilst delivering improved returns to our shareholders. The Company has broadened its categories we operate in to include lifestyle and health food products whilst continuing in toys, sporting and confectionery categories.

The benefits of the initiatives that have been implemented in FY16 will have a positive impact in FY17. These include:

- The continued expansion of our own products.
- An expanded licensing agreement with Messi.
- Increased product portfolio of agency brands.
- Ongoing benefits derived from significant cost savings initiatives structural organisational and key people changes.
- Improved margins with a better mix of new products, reduced clearance sales and new channels of distribution.

Through our own and key agency brands we continue to enhance our contract 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.

Rounding of amounts to nearest thousand dollars

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

Dividends

In respect of the financial year ended 31 July 2016, no dividends have been declared or paid, and a dividend is unlikely until the Company returns to a profit and reduces its core debt levels. The declaration of dividends is subject to bank approval.

Bank

The Company's bank facilities with National Australia Bank have been restructured, enabling the business to operate in an efficient and effective manner. In March, the facilities were extended through to November 2018 (overdraft facility June 2017). The National Australia Bank remains a key long term partner, one who has been extremely supportive and understands the magnitude of the changes required to deliver the turnaround strategy. In accordance with accounting standards, these facilities have been classified as current in the Company's balance sheet as there are review clauses in place which are effective in the next 12 months. Had these review clauses not been in place, the bill finance of $27,965,000 would otherwise have been classified as long term.

Capital raising

The Company undertook a capital raising of $1.2 million during the year comprising a non-underwritten institutional share placement $1 m and a share purchase plan $0.2 m. The proceeds are being used to continue the development and global distribution of the Company's own brands.

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.

Share options

Options granted to directors and executives of the Company

During or since the end of the financial year, the Company granted options under the Employee Share Loan Scheme (ESLS) over unissued ordinary shares in the Company to the following Directors and Executives, as part of their remuneration:

Directors and executives	Number of options granted during the year[(i)]	Number of ordinary shares under option
Directors		
N. Pizmony	15,500,000	15,500,000
G. Mackenzie	3,300,000	3,600,000
Executives		
P.S. Lopez	1,750,000	6,550,000

(i) The ESLS is treated in substance as an option for accounting purposes and is therefore disclosed as share options in the Directors' Report, Remuneration Report and in the Notes to the financial statements. Further details on the ESLS are set out in Note 29 of the financial statements.

Unissued shares under option

At the date of this report, unissued shares of the Company under option are:

(a) Employee share loan scheme (ESLS)

Tranche	Grant date	Number of shares	Exercise price	Exercise date	Vesting date	Expiry date
Tranche 1	8 July 2013	600,000	$0.1599	1 January 2016	1 January 2016	N/A
Tranche 2	27 January 2014	1,500,000	$0.1660	27 January 2017	27 January 2017	N/A
Tranche 3	31 July 2015	3,600,000	$0.0244	31 July 2018	31 July 2018	N/A
Tranche 4	19 October 2015	8,115,000	$0.0360	4 October 2018	4 October 2018	N/A
Tranche 5	23 December 2015	18,800,000	$0.0290	23 December 2018	23 December 2018	N/A
		32,615,000				

Of the 2,400,000 options granted on 8 July 2013, 1,800,000 had been forfeited due to resignations of employment. Of the 2,200,000 options granted on 27 January 2014, 700,000 had been forfeited due to resignations of employment. Of the 9,110,000 options granted on 19 October 2015, 995,000 had been forfeited due to resignations of employment. None of these forfeited shares had been exercised and they had a nil value at the forfeited dates.

Indemnity of officers and auditors

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

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred by such an officer or auditor.

Meetings of directors

The number of meetings of the Company's directors held during the year ended 31 July 2016 and the number of meetings attended by each director were:

	Remuneration and Evaluation Committee		Board of Directors		Audit, Risk and Compliance Committee	
	A	B	A	B	A	B
S Tanner	1	1	15	15	4	4
N Pizmony	*	*	15	15	*	*
L Norquay	1	1	15	15	4	4
S Heath	1	1	15	15	4	4
G Mackenzie	*	*	15	15	*	*

Note:

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

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

There is also a Nominations Committee but no Nomination Committee meetings were held during 2016 (2015: nil) since no changes to Board composition were contemplated.

Directors' shareholdings

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

Director	Issuing entity	Ordinary shares	Share options
S Tanner	Funtastic Limited	1,000,000	–
N Pizmony	Funtastic Limited	54,988,601	15,500,000
S Heath	Funtastic Limited	4,952,802	–
L Norquay	N/A	–	–
G Mackenzie	Funtastic Limited	11,896,976	3,600,000

Option holdings

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

The Board has discretion to waive any vesting conditions or other restrictions to the ESLS in accordance with the ESLS plan rules provided such amendments do not widely prejudice the rights of existing participants.

Changes in state of affairs

There was no significant change in the state of affairs of the consolidated entity during the financial year.

Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 31 to the financial statements. The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are of the opinion that the services as disclosed in Note 32 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit, Risk and Compliance Committee, for the following reasons:

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

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 32 of this annual report.

Remuneration Report (Audited)

Details of key management personnel

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

Name	Position	Period in position during the year
Shane Tanner	Chairman and Independent Non-executive Director	Full year
Nir Pizmony	Executive Director Managing Director and Chief Executive Officer	Full year Full year
Stephen Heath	Independent Non-executive Director	Full year
Linda Norquay	Independent Non-executive Director Executive Director	Full year
Grant Mackenzie	Chief Operating Officer, Chief Financial Officer and Company Secretary	Full year
Pedro Sangil Lopez	International Manager	Full year

Remuneration policy for directors and executives

Principles of Compensation

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

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

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

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

Remuneration Report (Audited) continued

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

Compensation and Company Performance

Funtastic Limited's Net Profit before Tax (NPBT) has been the key performance measure for the Company's incentive plans for executives, linked to individual key performance objectives.

In 2016, no Short Term Incentive ("STI") eligible payments were made (2015:$nil).

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

	Year ended 31 July 2016	Year ended(v) 31 July 2015	Year ended(iii)(v) 31 July 2014	Year ended(iii) 31 July 2013	Year ended(iii) 31 July 2012
NPAT ($'000)(i)	(23,854)	(56,479)	(41,763)	13,962	10,436
EPS Basic (Cents)(ii)	(3.49)	(8.42)	(6.30)	2.58	2.77
Diluted EPS (Cents)(ii)	(3.49)	(8.42)	(6.30)	2.57	2.77
Total Dividends ($'000)	Nil	Nil	3,335	2,702	Nil
Year End Share Price ($)	0.022	0.029	0.077	0.17	0.16
Shares on Issue (No.)(iv)	729,619,723	667,169,723	667,169,723	642,169,723	537,799,605
Market Capitalisation ($'000)	16,052	19,348	51,372	109,169	86,048

(i) NPAT from Group operations.

(ii) Basic & Diluted EPS from group operations.

(iii) Includes Madman Entertainment Group of companies.

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

(v) FY15 and FY14 NPAT and EPS have been restated to reflect revised impairment amounts. Refer to further details in Note 1.

Components of compensation

Fixed Compensation

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

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

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

Remuneration Report (Audited) continued

Components of compensation continued

At Risk Compensation

Annual Bonus

- The STI plan is linked to specific targets (predominantly financial) with the opportunity to earn incentives based on a percentage of fixed compensation.
- Performance measurements have been applied to each component of STI and accordingly, entitlements were determined with regard to the executive's level and area of responsibility. Performance against the objectives was determined and incentives and entitlements assessed against the audited financial results.
- Due to the Company's financial position, the executive leadership took a reduction in pay effective 1 June 2016. The reduction in pay has been converted to STI plan subject to the Company delivering a net profit before tax for the FY17 financial year.

	Fixed remuneration		Remuneration linked to performance	
	2016	2015	2016	2015
Directors				
Shane Tanner	100%	100%	–	–
Craig Mathieson	–	100%	–	–
Stephen Heath	100%	100%	–	–
Linda Norquay	100%	100%	–	–
Executive Officers				
Nir Pizmony	100%	100%	–	–
Grant Mackenzie	100%	100%	–	–
Pedro Sangil Lopez	100%	92%	–	8%

Share Options/Share Performance Right Plans/Employee Share Loan Scheme

The Company's long-term incentive arrangements (LTI) are designed to link executive compensation with growth in shareholder value through the grant of options or rights over equity securities (shares) in the Company. The Company's Executive Share Option Plan (ESOP) and Funtastic Employee Performance Share Rights (EPSR) were replaced by the Employee Share Loan Scheme (ESLS) established during the 2013 financial year. As at the 31 July 2016 all options relating to the ESOP and EPSR had expired.

During the 2013 financial year (as part of the Company's LTI arrangements), the Company established the Funtastic Employee Share Loan Scheme (ESLS). At the Board's discretion, eligible employees were invited to participate in the scheme.

The Funtastic Employee Share Loan Scheme Trust (Trust) was established for the purpose of purchasing and holding shares on behalf of participants to satisfy exercises made under the ESLS operated by Funtastic. Under the ESLS, an interest free limited recourse loan (a loan where the participant's risk will be limited to the shares issued to the participant under or in connection with the plan) to the value of the grant date issue price per share was granted to each participant. Each participant directs Funtastic to pay the loan amount to the trustee of the Trust and the trustee to use the loan amount to acquire shares on behalf of the Participant, which are held until the exercise date of the option under which they were purchased.

The loan is repayable by the participant when the options become exercisable, being after the vesting date and subject to the satisfaction of the vesting conditions. When the options are exercisable, in the event that the balance of the loan is less than the estimated market value of shares that secure the loan less estimated transaction costs, a participant may request Funtastic to sell the shares on the ASX and that the funds received from the sale of those shares, less any costs incurred in connection with the sale and less the loan balance be remitted to the participant.

Remuneration Report (Audited) continued

Share Options/Share Performance Right Plans/Employee Share Loan Scheme continued

The shares are eligible to participate in dividends declared by the Company. Any dividends paid will be utilised to reduce the carrying value of each scheme participant's individual loan balance on the dividend payment date. In the event that the loan balance is greater than the sale proceeds, a participant may request Funtastic to transfer the shares which secure the loan to the participant provided that the participant remits any outstanding balance of the loan to Funtastic as repayment of the loan.

In the event that an employee ceases employment with Funtastic, is entitled to vested shares and does not direct Funtastic to sell or transfer such Shares to the participant and the balance of the loan is greater than the estimated proceeds amount, Funtastic must buy back and cancel such shares with the consideration from the buyback being the full satisfaction of the then outstanding balance of the loan. The participant will have no further entitlements to or in respect of the shares.

No performance conditions are attached to the ESLS and the only vesting condition is a service condition which requires participants to remain in employment until 1 January 2016 for Tranche 1, 27 January 2017 for Tranche 2, 31 July 2018 for Tranche 3, 19 October 2018 for Tranche 4 and 23 December 2018 for Tranche 5. Although there are no performance conditions attached to the ESLS, eligible employees only benefit from the scheme through improvements in the share price of the Company, which results from improved performance. The options become exercisable only when the vesting conditions are met. (See Note 28)

The expiry date of the ESLS options is on the date the employee ceases employment with Funtastic. Further details on the ESLS, the ESLS Trust and the ESLS's interest free limited recourse loan are set out in Note 28 of the financial statements.

The Board has discretion to waive any vesting conditions or other restrictions attached to the ESLS in accordance with the ESLS plan rules provided that such amendments do not unduly prejudice the rights of existing participants.

Share Options granted

During the financial year, the following share-based payment arrangements were in existence:

Share-based payment	Series	Tranche	Grant date	Expiry date	Grant date average fair value	Number of shares at 31 July 2016	Vesting date	Exercise date
Share option	ESLS[(i),(ii)]	Tranche 1	08/07/2013	N/A	$0.0502	600,000	01/01/2016	01/01/2016
Share option	ESLS[(i),(ii)]	Tranche 2	27/01/2014	N/A	$0.0634	1,500,000	27/01/2017	27/01/2017
Share option	ESLS[(i),(ii)]	Tranche 3	31/07/2015	N/A	$0.0154	3,600,000	31/07/2018	31/07/2018
Share option	ESLS[(i),(ii)]	Tranche 4	19/10/2015	N/A	$0.0360	8,115,000	04/10/2018	04/10/2018
Share option	ESLS[(i),(ii)]	Tranche 5	23/12/2015	N/A	$0.0284	18,800,000	23/12/2018	23/12/2018
Total						**32,615,000**		

(i) There are no performance conditions attached to this share option. The only vesting condition is for participants to remain in employment until 1 January 2016 for Tranche 1, 27 January 2017 for Tranche 2, 31 July 2018 for Tranche 3, 4 October 2018 for Tranche 4 and 23 December 2018 for Tranche 5. The design of the ESLS is to link executive compensation with continuing service commitment to Funtastic and growth in shareholder value.

(ii) The expiry date is on the date the employee ceases employment with Funtastic whether vested or not.

There has been no alteration of the terms and conditions of the above share-based payment arrangements since the grant date.

Shares provided on exercise of remuneration options

No ESOP or ESLS options were exercised during the current financial year or preceding financial year.

Remuneration Report (Audited) continued

Remuneration of key management personnel compensation

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

	Short-term employee benefits			Post-employment benefits	Other long-term employee benefits		Share-based payments		
Year ended 31 July 2016	Salary and fees $	Cash bonus $	Non-monetary benefits $	Superannuation $	Long service leave $	Termination benefits $	Options $	Options under Employee Share Loan Scheme $	Total $
Directors									
Shane Tanner	123,600	–	–	–	–	–	–	–	123,600
Stephen Heath	61,186	–	–	898	–	–	–	–	62,084
Linda Norquay	61,800	–	–	–	–	–	–	–	61,800
Nir Pizmony	448,676	–	–	37,216	11,830	–	–	43,492	541,214
Grant Mackenzie	359,209	–	–	34,125	1,028	–	–	15,589	409,951
Sub-Totals	**1,054,471**	–	–	**72,239**	**12,858**	–	–	**59,081**	**1,198,649**
Executives									
Pedro Sangil Lopez	298,476	–	193,382	3,712	–	–	–	50,939	546,509
Sub-Totals	**298,476**	–	**193,382**	**3,712**	–	–	–	**50,939**	**546,509**
TOTALS	**1,352,947**	–	**193,382**	**75,951**	**12,858**	–	–	**110,020**	**1,745,158**

Remuneration Report (Audited) continued

Remuneration of key management personnel compensation

	Short-term employee benefits			Post-employment benefits	Other long-term employee benefits		Share-based payments		
Year ended 31 July 2015	**Salary and fees $**	**Cash bonus $**	**Non-monetary benefits $**	**Superannuation $**	**Long service leave $**	**Termination benefits $**	**Options $**	**Options under Employee Share Loan Scheme $**	**Total $**
Directors									
Shane Tanner	123,600	–	–	–	–	–	–	–	123,600
Craig Mathieson(ii)	47,649	–	–	4,526	–	–	–	–	52,175
Stephen Heath	62,466	–	–	–	–	–	–	–	62,466
Linda Norquay	61,800	–	–	–	–	–	–	–	61,800
Nir Pizmony	479,796	–	–	33,846	8,314	–	136,170	–	658,126
Grant Mackenzie	334,527	–	32,630	34,862	504	–	–	6,330	408,853
Sub-Totals	**1,109,838**	**–**	**32,630**	**73,234**	**8,818**	**–**	**136,170**	**6,330**	**1,367,020**
Executives									
Pedro Sangil Lopez(i)	270,407	20,990	183,698	3,315	–	–	–	25,079	503,489
Sub-Totals	**270,407**	**20,990**	**183,698**	**3,315**	**–**	**–**	**–**	**25,079**	**503,489**
TOTALS	**1,380,245**	**20,990**	**216,328**	**76,549**	**8,818**	**–**	**136,170**	**31,409**	**1,870,509**

(i) Retention payment made under the terms employment contract. No other cash bonuses were granted during 2015.

(ii) Resigned 26 May 2015.

Remuneration Report (Audited) continued

Key management personnel equity holdings

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

Share options

The tables below include balances for both options granted under the Employee Share Loan Scheme and Unlisted options.

Year ended 31 July 2016	Balance at the start of the year	Granted during the year	Options expired during the year	Options forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year(ii)	Vested and unexercisable at the end of the year
Executive Directors							
Nir Pizmony	–	15,500,000(i)	–	–	15,500,000	–	–
Grant Mackenzie	300,000	3,300,000(i)	–	–	3,600,000	–	–
Executives							
Pedro Sangil Lopez	4,800,000	1,750,000	–	–	6,550,000	–	–
Totals	**5,100,000**	**20,550,000**	**–**	**–**	**25,650,000**	**–**	**–**

(i) The ESLS options were granted the LTI component of management compensation.

(ii) No options were vested, exercised or exercisable during FY16.

Year ended 31 July 2015	Balance at the start of the year	Granted during the year	Options expired during the year	Options forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year(iii)	Vested and unexercisable at the end of the year
Executive Directors							
Nir Pizmony	6,333,333	–(i)	(6,333,333)	–	–	–	–
Grant Mackenzie	300,000	–(i)	–	–	300,000	–	–
Executives							
Pedro Sangil Lopez	1,200,000	3,600,000(ii)	–	–	4,800,000	–	–
Totals	**7,833,333**	**3,600,000**	**(6,333,333)**	**–**	**5,100,000**	**–**	**–**

(i) The ESLS options disclosed as being granted in the 2015 annual report had not been correctly approved. As such, they were deemed not to be granted during the year and have been removed from the schedules in this report.

(ii) The ESLS options were granted in lieu of retention bonus payable under current employment contract.

(iii) No options were exercised during FY15.

Remuneration Report (Audited) continued

Key management personnel equity holdings continued

Year ended 31 July 2016	No. of options granted at the grant date	Value of options granted at the grant date(i)	No. of options exercised	Value of options exercised at the exercise date(ii)
Executive Directors				
Nir Pizmony	15,500,000	223,671	–	–
Grant Mackenzie	3,300,000	47,620	–	–
Executives				
Pedro Sangil Lopez	1,750,000	34,854	–	–
Totals	**20,550,000**	**306,145**	**–**	**–**

(i) The value of the ESLS options granted during the financial year is calculated as at grant date using the Black Scholes model. This grant date value is allocated to remuneration of key management personnel on a straight-line basis over the period from grant date to vesting/exercise date.

(ii) Not applicable as there were no options exercised during the year.

Year ended 31 July 2015	No. of options granted at the grant date	Value of options granted at the grant date(i)	No. of options exercised	Value of options exercised at the exercise date(ii)
Executive Directors				
Nir Pizmony	–(iii)	–(iii)	–	–
Grant Mackenzie	–(iii)	–(iii)	–	–
Executives				
Pedro Sangil Lopez	3,600,000	55,440	–	–
Totals	**3,600,000**	**55,440**	**–**	**–**

(i) The value of the ESLS options granted during the financial year is calculated as at grant date using the Black Scholes model. This grant date value is allocated to remuneration of key management personnel on a straight-line basis over the period from grant date to vesting/exercise date.

(ii) Not applicable as there were no options exercised during the year.

(iii) The ESLS options disclosed as being granted in the 2015 annual report had not been correctly approved. As such, they were deemed not to be granted during the year and have been removed from the schedules in this report.

Remuneration Report (Audited) continued

Key management personnel equity holdings continued

Ordinary shares

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

Year ended 31 July 2016	Balance at the start of the year	Shares purchased during the year	Received on exercise of options	Other changes	Balance at the end of the period(i)	Balance held nominally
Directors						
Shane Tanner	500,000	500,000	–	–	1,000,000	1,000,000
Nir Pizmony	30,238,601	24,750,000	–	–	54,988,601	46,254,918
Stephen Heath	4,452,802	500,000	–	–	4,952,802	4,952,802
Linda Norquay	–	–	–	–	–	–
Grant Mackenzie	7,146,976	4,750,000	–	–	11,896,976	1,292,856
Executives						
Pedro Sangil Lopez	7,522,095	–	–	–	7,522,095	–
Totals	**49,860,474**	**30,500,000**	–	–	**80,360,474**	**53,500,576**

(i) Excludes share options issued under the ESLS.

Year ended 31 July 2015	Balance at the start of the year	Shares purchased privately during the year	Received on exercise of options	Other changes	Balance at the end of the period(ii)	Balance held nominally
Directors						
Shane Tanner	500,000	–	–	–	500,000	500,000
Nir Pizmony	29,238,601	1,000,000	–	–	30,238,601	21,504,918
Craig Mathieson(i)	111,382,853	–	–	(111,382,853)	–	–
Stephen Heath	666,667	3,786,135	–	–	4,452,802	4,452,802
Linda Norquay	–	–	–	–	–	–
Grant Mackenzie	3,568,405	3,578,571	–	–	7,146,976	1,292,856
Executives						
Pedro Sangil Lopez	3,634,733	–	–	3,887,362	7,522,095	–
Totals	**148,991,259**	**8,364,706**	–	**(107,495,491)**	**49,860,474**	**27,750,576**

(i) Resigned 26 May 2015. As Craig Mathieson is not a KMP at 31 July 2015, his shareholdings in the Group are no longer disclosed.

(ii) Excludes share options issued under the ESLS.

Remuneration Report (Audited) continued

Loans to and other transactions with key management personnel

(a) Transactions with key management personnel

Key management personnel compensation

Details of key management personnel compensation are disclosed in Note 30 to the financial statements.

Loans from key management personnel

There are no outstanding loans from key management personnel.

(b) Transactions with key management personnel of the Group

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

	Year ended 31 July 2016	Year ended 31 July 2015
	$	**$**
Consolidated revenue includes the following amounts arising from transactions with key management personnel of the Group or their related parties:		
Gross revenue	–	1,854
	–	**1,854**
Consolidated profit includes the following amounts arising from transactions with key management personnel of the Group or their related parties:		
Cost of goods sold	–	5,823
Other expenses	6,237	1,971
	6,237	**7,794**

The above transactions were performed at arm's length.

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

- Purchases of $5,553 (2015: $1,645) to Annabel Mackenzie a party related to Mr Grant Mackenzie for external consulting;
- Purchases of $684 for provision of employment services (2015: $326) from Sherelle Pizmony a party related to Mr Nir Pizmony;
- Commission revenue of nil (2015: $1,854) and cost of goods sold of nil (2015: $5,823) for product items that were sold on behalf of The 3 of Us Limited an entity related to Mr Nir Pizmony.

Consistent with prior year, Funtastic holds a combined media purchasing arrangement with The Three of Us, which results in advantageous marketing costs. The media purchasing arrangement positions Funtastic to facilitate payment of marketing costs for both Funtastic and The Three of Us, following which The Three of Us reimburses Funtastic for their portion of advertising. A total amount of $343,697 (2015: $2,078,859) was passed through to Funtastic in respect to these arrangements. In this respect Funtastic is acting as an agent for the Three of Us, however earning no margin in the process. Given the substance of this arrangement, there is no impact upon the Group's consolidated profit or loss.

(c) Transactions with other related parties

Transactions between Funtastic Limited and other entities in the wholly-owned Group during the financial years ended 31 July 2015 and 31 July 2016, which were eliminated on consolidation, consist of:

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

Remuneration Report (Audited) continued

Service agreements

Remuneration and other terms of employment for the Chairman, Managing Director, Non-executive Directors, Chief Executive Officer and the other executives are formalised in service agreements/employment letters. In the case of the Chief Executive Officer and other Executives, these allow for the provision of performance-related cash bonuses, and where eligible, participation in the Funtastic Limited Employee Share Loan Scheme (excludes Chairman, Managing Director and Non-executive Directors). Additionally, other benefits including car allowances can be provided to all key management personnel.

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

Shane Tanner – Chairman & Independent Non-executive Director

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

Nir Pizmony – Managing Director and Chief Executive Officer

- Term of the agreement – full-time permanent and no specific term.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 6 months' base salary.
- Notice period 6 months.

Grant Mackenzie – Executive Director, Chief Financial Officer & Chief Operating Officer

- Term of the agreement – full-time permanent and no specific term.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 12 weeks' base salary.
- Notice period 12 weeks.

Stephen Heath – Non-executive Director

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

Linda Norquay – Non-executive Director

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

Pedro Sangil Lopez – International Manager

- Term of the agreement – full-time permanent and no specific term.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 6 months' base salary.
- Notice period 6 months

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

On behalf of the Directors,

Shane Tanner
Chairman of the Board

Melbourne
30th September 2016

Deloitte.

Deloitte Touche Tohmatsu
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Independent Auditor's Report
to the Members of Funtastic Limited

Report on the Financial Report

We have audited the accompanying financial report of Funtastic Limited, which comprises the statement of financial position as at 31 July 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 33 to 88.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Deloitte.

Auditor's Independence Declaration

In conducting our audit, 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 report.

Opinion

In our opinion:

(a) the financial report of Funtastic Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 July 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the consolidated entity incurred a net loss before income tax of $21,900,000 and had a net operating cash outflow of $7,329,000 during the year ended 31 July 2016 and, as of that date, had a net asset deficiency of $17,098,000. 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 ability of the consolidated entity and the company to continue as going concerns and therefore, the consolidated entity and the company may be unable to realise their assets and discharge their liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 19 to 29 of the directors' report for the year ended 31 July 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Funtastic Limited for the year ended 31 July 2016, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Roche
Partner
Chartered Accountants
Melbourne, 30 September 2016

Deloitte.

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

30 September 2016

Dear Board Members

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 audit of the financial statements of Funtastic Limited for the financial year ended 31 July 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 audit; and

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Roche
Partner
Chartered Accountants

Directors' Declaration

The directors declare that:

(a) in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 2 to the financial statements;

(c) in the directors' opinion, the attached financial statements and Notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group; and

(d) the directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418 and has entered into a deed of cross guarantee as contemplated in that order. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in Note 25 to the financial statements will, as a Group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

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

On behalf of the Directors,

Shane Tanner
Chairman of the Board

Melbourne
30th September 2016

Consolidated Statement of Profit or Loss and other Comprehensive Income

for the year ended 31 July 2016

	Note	31 July 2016	31 July 2015 Restated	31 July 2015 Previously Reported
		For the Year ended		
		$'000	$'000	$'000
Revenue	6	90,867	105,867	105,867
Cost of Goods Sold		(65,403)	(77,182)	(77,182)
Gross profit		**25,464**	**28,685**	**28,685**
Investment Income	7	651	652	652
Warehouse and Distribution Expenses		(5,277)	(7,526)	(7,526)
Marketing and Selling Expenses		(11,660)	(12,110)	(12,110)
Administration Expenses		(17,355)	(16,289)	(16,289)
Impairment of Goodwill and Intangible Assets	7	(6,424)	(30,066)	(11,120)
Earnings before interest, taxation, amortisation and depreciation (EBITDA)		**(14,601)**	**(36,654)**	**(17,708)**
Finance Costs		(3,794)	(2,992)	(2,992)
Depreciation and Amortisation Expenses	7	(3,505)	(3,472)	(3,472)
Loss before income tax		**(21,900)**	**(43,118)**	**(24,172)**
Income tax expense	8	(1,533)	(9,692)	(9,692)
Loss for the period from continuing operations		**(23,433)**	**(52,810)**	**(33,864)**
Discontinued operations				
Loss from Discontinued Operations	5	(421)	(3,669)	(3,669)
Loss for the year		**(23,854)**	**(56,479)**	**(37,533)**
Other comprehensive income (net of tax)				
Items that may be reclassified subsequently to profit or loss				
Profit on equity-settled benefits transferred from/taken to equity		318	(53)	(53)
Loss on cash flow hedges taken to equity		58	(215)	(215)
Other comprehensive income (loss) for the year (net of tax)		**376**	**(268)**	**(268)**
Total comprehensive loss for the year attributable to the members of Funtastic		**(23,478)**	**(56,747)**	**(37,801)**
Earnings per share				
Basic earnings per share (cents per share)		(3.49)	(8.47)	(5.63)
Diluted earnings per share (cents per share)		(3.49)	(8.47)	(5.63)
Earnings per share – continuing operations				
Basic earnings per share (cents per share)		(3.43)	(7.92)	(5.08)
Diluted earnings per share (cents per share)		(3.43)	(7.92)	(5.08)

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

Consolidated Statement of Financial Position

as at 31 July 2016

		For the Year ended		
		31 July 2016	31 July 2015 Restated	31 July 2015 Previously Reported
	Note	$'000	$'000	$'000
Current Assets				
Cash	26	764	904	904
Receivables	9	8,352	10,136	10,136
Inventories	10	10,340	16,563	16,563
Other Assets	11	2,519	3,372	3,372
Other Financial Assets		–	38	38
Total Current Assets		**21,975**	**31,013**	**31,013**
Non-Current Assets				
Property, Plant and Equipment	12	1,455	1,750	1,750
Goodwill	13	14,163	14,163	39,165
Other Intangibles	14	7,294	15,427	15,427
Deferred Tax Asset	8	1,821	3,367	3,367
Other Assets	11	424	405	405
Total Non-Current Assets		**25,157**	**35,112**	**60,114**
Total Assets		**47,132**	**66,125**	**91,127**
Current Liabilities				
Payables		9,805	11,615	11,615
Interest Bearing Liabilities (excluding Bill Finance)	16	20,950	26,466	26,466
Bill Finance	16	27,965	15,965	15,965
Provisions	17	947	1,080	1,080
Tax Liabilities	8	236	195	195
Other Financial Liabilities		313	435	435
Other Liabilities	18	3,752	4,632	4,632
Total Current Liabilities		**63,968**	**60,388**	**60,388**
Non-Current Liabilities				
Interest Bearing Liabilities	16	–	26	26
Provisions	17	60	227	227
Provision for Deferred Tax Liabilities	8	37	254	254
Other Liabilities	18	165	115	115
Total Non-Current Liabilities		**262**	**622**	**622**
Total Liabilities		**64,230**	**61,010**	**61,010**
Net Assets		**(17,098)**	**5,115**	**30,117**
Equity				
Contributed Equity	20	209,483	208,372	208,372
Retained Profits		(227,904)	(204,050)	(179,048)
Other Reserves		1,323	793	793
Total Equity		**(17,098)**	**5,115**	**30,117**

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

Consolidated Statement of Changes in Equity

for the year ended 31 July 2016

	Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Equity-settled Employee Benefits Reserve	Cash Flow Hedging Reserve	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 August 2014	**208,372**	**(147,571)**	**(976)**	**1,941**	**(62)**	**61,704**
Loss for the year	–	(56,479)	–	–		(56,479)
Other comprehensive income (loss)	–	–	(53)	–	(215)	(268)
Total comprehensive income (loss)	–	(56,479)	(53)	–	(215)	(56,747)
Recognition of share-based payments	–	–	–	158	–	158
Balance at 31 July 2015	**208,372**	**(204,050)**	**(1,029)**	**2,099**	**(277)**	**5,115**
Loss for the year	–	(23,854)	–	–	–	(23,854)
Other comprehensive income (loss)	–	–	318	–	58	376
Total comprehensive income (loss)	–	(23,854)	318	–	58	(23,478)
Issue of ordinary shares	1,111	–	–	–	–	1,111
Recognition of share-based payments	–	–	–	154	–	154
Balance at 31 July 2016	**209,483**	**(227,904)**	**(711)**	**2,253**	**(219)**	**(17,098)**

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

Consolidated Statement of Cash Flows

for the year ended 31 July 2016

	Note	Year ended 31 July 2016 $'000	Year ended 31 July 2015 $'000
Cash Flows from Operating Activities			
Receipts from customers		94,773	106,768
Payments to suppliers and employees		(98,145)	(111,576)
Cash (utilised) generated from operations		(3,372)	(4,808)
Income taxes paid		(163)	(50)
Interest and other costs of finance paid		(3,794)	(3,022)
Net cash outflow from operating activities	**26(c)**	**(7,329)**	**(7,880)**
Cash Flows from Investing Activities			
Interest and other investment income received		651	652
Payments for plant and equipment		(884)	(1,200)
Payments for other intangible assets		(325)	(1,031)
Proceeds from sale of plant and equipment		–	21
Net cash outflow from investing activities		**(558)**	**(1,558)**
Cash Flows from Financing Activities			
Proceeds from borrowings		7,457	8,700
Repayment of borrowings		–	(2,899)
Repayment of commercial bills		(1,000)	–
Proceeds from share issue		1,111	–
Net cash inflow from financing activities		**7,568**	**5,801**
Net decrease in Cash Held		(319)	(3,637)
Cash and cash equivalents at the beginning of the year		904	4,909
Effects of exchange rate changes on the balance of cash held in foreign currencies		179	(368)
Cash and cash equivalents at the end of the year	**26(a)**	**764**	**904**

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

Note 1: Significant accounting policies

Statement of compliance

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

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

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

The financial statements were authorised for issue by the directors on 30 September 2016.

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

Basis of preparation

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

Going concern basis

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

The loss from continuing operations before income tax of $21,900,000 (2015: $43,118,000) and net operating cash outflow of $7,329,000 (2015: $7,880,000) in the current financial period are an improvement over the same period last financial year. The improvement in the loss before income tax is primarily driven by a lower impairment charge to the Income statement in the current financial year of $6,424,000 (2015: $30,066,000).

Whilst the first half of the financial year was an improvement over the same period for the prior year, business conditions deteriorated in the second half. As a result management has significantly reduced the fixed costs of the business, reducing the risk of incurring further losses. With cost reductions, margin improvement and securing of additional agency partners, the consolidated entity ("Group") expects to improve its financial performance and return to a profit over the next twelve months.

There is a net current liability position of $41,993,000 and a net asset deficiency of $17,098,000 (2015: surplus of $5,115,000) as at 31 July 2016. Included in the current liabilities are bank facilities with National Australia Bank of $48,892,000. Whilst the major component of these facilities do not mature until 1 November 2018, in accordance with accounting standards, the entire amount has been classified as current as at 31 July 2016 as there are review clauses in place which are effective in the next 12 months. Had these review clauses not been in place, the bill finance of $27,965,000 would otherwise have been classified as long term.

Based on the Group's forecasts, the bank facility provides sufficient flexibility to meet the Group's fluctuating cash flow requirements. 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 after applying a more conservative sales forecast and implementing cost reductions, the Group's product portfolio contains a number of new items and operates in a number of diverse countries. This, together with the concentration of the Australian retail environment (where some key customers are going through transformation strategies) coupled with short product lifecycles, means forecast accuracy involves significant uncertainty.
- Whilst certain months are forecasted to have limited headroom to the facility limits, cash flow forecasts have been assessed against possible sensitivity scenarios and the Group is satisfied that the headroom is sufficient. However, 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, early payment arrangements with major customers, and/or negotiating additional funding sources. The ability to negotiate such arrangements, if required, is uncertain.

The directors and management believe that they have:

- implemented significant cost reductions;
- applied a more conservative sales forecast assessment; and
- have a sound working relationship with the Group's Bank

and after having carefully assessed the Group's forecasted cash flows and with increased control over costs, 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 the going concern basis.

Note 1: Significant accounting policies continued

Going concern basis continued

Should the Group's actual results vary significantly from forecast and it is unable to manage any shortfall through the measures outlined above, a material uncertainty would exist as to whether the Company and the Group will be able to continue as going concerns and therefore whether they will realise their assets and discharge their liabilities in the normal course of business.

The financial 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 Company and the Group not continue as going concerns.

(a) Basis of consolidation

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

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

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

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

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

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

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

(b) Income tax

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

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

Note 1: Significant accounting policies continued

(b) Income tax continued

(iii) Current and deferred tax for the period

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

(iv) Tax Losses

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

(v) Tax consolidation

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

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

(c) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Group companies

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

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

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

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

(d) Cash and cash equivalents

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

Note 1: Significant accounting policies continued

(e) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, discounts, rebates and GST paid.

Revenue from the sale of goods is recognised when a Group entity has delivered products to the customer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer and the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied.

Commission revenue is recorded when the consideration is receivable based on when the goods have been dispatched to a customer by the third party.

Interest income is recognised on a time proportionate basis using the effective interest rate method. Management fee revenue is recognised in accordance with the entitlement to fees for the management services provided and is brought to account on an accrual basis.

(f) Rental income

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(g) Plant and equipment

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

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

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

Plant and equipment:	2.5 – 10 years
Leasehold improvements:	5 years

(h) Loans and receivables

Trade, loans and other receivables, are measured at amortised cost, less allowance for doubtful debts, rebates and settlement discounts, where appropriate.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount is recognised in the profit or loss.

(i) Inventories

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

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

(j) Trade payables

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

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

Note 1: Significant accounting policies continued

(k) Goods and services tax

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

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

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

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

(l) Leased non-current assets

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

Finance leases are capitalised (Note 19). A leased asset and a liability are established at the lower of fair value and the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense, so as to achieve a constant rate of interest on the remaining balance of the liability.

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

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

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

(m) Share-based payments

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

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

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

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

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

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

Note 1: Significant accounting policies continued

(n) Borrowings

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

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

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

(o) Borrowing costs

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

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

(p) Employee benefits

(i) Wages and salaries and annual leave

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

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

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

(ii) Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(iii) Profit sharing and bonus plans

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

(iv) Employee benefit on-costs

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

(q) Intangible assets

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

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

• Software	3 years
• Patents	20 years
• Trademarks	10-20 years
• Licensed distribution agreements	1-20 years
• Brand names	Indefinite

Note 1: Significant accounting policies continued

(r) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units (CGUs), or groups of CGUs, expected to benefit from the synergies of the business combination. CGUs (or groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or groups of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or groups of CGUs) and then to the other assets of the CGU (or groups of CGUs) pro-rata on the basis of the carrying amount of each asset in the CGU (or groups of CGUs). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in subsequent periods.

On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

(s) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward contracts comprising foreign exchange forward contracts and options and interest rate swaps. Further details of derivative financial instruments are disclosed in Note 34 to the financial statements.

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

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

(i) Cash flow hedges

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

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

Note 28 contains details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in the statement of changes in equity.

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

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

Note 1: Significant accounting policies continued

(t) Financial assets

All financial assets are recognised and derecognised on trade date where the purchase or sale of the financial asset is under a contract which terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as fair value through profit or loss (FVTPL) which are initially measured at fair value.

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 28.

(i) Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If in a subsequent period the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date of the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(u) Financial instruments issued by the Group

(i) Equity instruments

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

(ii) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner set out in Note 29.

(iii) Other financial liabilities

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

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

Note 1: Significant accounting policies continued

(v) Provisions

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

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

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

(w) Onerous contracts

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

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

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

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

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

(y) Discontinued operations

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

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

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

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

Note 1: Significant accounting policies continued

(z) Determination of fair values

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

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

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

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

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

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

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

(aa) Restatement of prior period goodwill

In the preparation of the impairment assessment at the half year ended 31 January 2016, 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 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 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 the 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.

Note 1: Significant accounting policies continued

(aa) Restatement of prior period goodwill continued

Consolidated statement of profit or loss and other comprehensive income	31 July 2015 as previously reported	Re-statement	31 July 2015 as re-stated
	$'000	$'000	$'000
Impairment charge	(11,120)	(18,946)	(30,066)
Loss for the period	**(37,533)**	**(18,946)**	**(56,479)**

Consolidated statement of financial position	31 July 2015 as previously reported	Re-statement	31 July 2015 as re-stated	31 July 2014 as previously reported	Re-statement	1 August 2014 as re-stated
	$'000	$'000	$'000	$'000	$'000	$'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**

Note 2: Application of new and revised Accounting Standards

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

In the current year, the Group has applied two amendments to AASBs issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2015, and therefore relevant for the current year end.

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

This amendment completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn.

(ii) AASB 2015-4 'Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent'

The amendments to AASB 128 align the relief available in AASB 10 and AASB 128 in respect of the financial reporting requirements for Australian groups with a foreign parent. The amendments require that the ultimate Australian entity shall apply the equity method in accounting for interests in associates and joint ventures if either the entity or the group is a reporting entity, or both the entity and group are reporting entities.

The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

Note 2: Application of new and revised Accounting Standards continued

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations that were issued but not yet effective are listed below:

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 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', 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 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016	31 July 2017
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
AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses'	1 January 2017	31 July 2018
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	31 July 2018

At the date of authorisation of the financial statements, the following IASB standards and IFRIC Interpretations 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
Clarifications to IFRS 15 'Revenue from Contracts with Customers'	1 January 2018	31 July 2019

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

Note 3: Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation uncertainty

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

(i) Impairment of goodwill in continuing business segments

The Group tests annually or when impairment indicators are identified, whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of the cash-generating units have been determined on a value-in-use basis. These calculations require the use of assumptions. A significant change to these assumptions may affect the recoverable amount of the cash generating units (refer to Note 13).

(ii) Useful life of intangible assets

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

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

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

(iii) Recoverability of inventory

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

(iv) Recoverability of debtors

The Group periodically assesses the recoverable amount of its trade debtors in light of ageing and other market indicators of impairment. Whilst the Group has provided against impaired debts based on its best estimate of the recoverable amount, final amounts recovered may differ to that provided against.

(v) Taxation losses recognised as asset

The amount of deferred tax asset in respect of revenue tax losses is determined based upon expected future taxable income, and judgement as to the losses availability under the "continuity of ownership test", and where applicable the "same business test". Based on the current assessment, determined using budget forecasts for FY2017, the Group has de-recognised previously capitalised tax losses as at 31 July 2016 and no longer recognises an amount within the deferred tax asset for tax losses. Refer to Note 8 for details of the removal of tax losses during the year ended 31 July 2016.

(vi) Discontinued operations

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. In FY15, an independent review process was undertaken resulting in a determination that the amount receivable from Madman was $332,000. The Group wrote 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 awaiting final judgement following a trial held on 31 August 2016.

Note 4: Segment information

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

Geographical information

The Group operates in 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)		
Revenue from External Customers	**Year ended 31 July 16**	**Year ended 31 July 15**	**Year ended 31 July 16**	**Re-stated 31 July 15**	**Previously reported 31 July 15**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Australia	68,459	84,395	22,046	30,155	55,157
Hong Kong	20,431	21,313	1,270	1,479	1,479
USA	1,977	159	21	24	24
	90,867	**105,867**	**23,337**	**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 $68,459,000, are revenues of approximately $56,806,000 (2015:$62,434,000), which arose from sales to that region's four largest customers.

Included in revenues of Hong Kong of $20,431,000, are revenues of approximately $8,184,000 (2015:$7,158,000), which arose from sales to that region's four largest customers.

Included in revenues of USA of $1,977,000, are revenues of approximately $1,195,000 (2015:$159,000), which arose from sales to that region's four largest customers.

Note 5: Discontinued operations

On 31 July 2014, Madman Entertainment ceased to be a subsidiary of the Group.

The Group recognised a loss before tax on the sale of the Madman Entertainment operations of $29,441,000 as at 31 July 2014. During the year ended 31 July 2015, the Company recognised further losses in respect to the sale of $3,669,000 relating to accumulated costs incurred for completion ($229,000) and a write-down of the deferred consideration recognised at 31 July 2014 ($3,440,000). The Company has provided for the reduction in the deferred consideration to align with the Independent Accountant's assessment, the Company is awaiting the final judgement following a trial held on 31 August 2016.

The losses incurred in 2016 relate to the legal costs incurred in relation to the Madman dispute. Refer to further details outlined in Note 34.

Results of discontinued operation	Year ended 31 July 2016 $'000	Year ended 31 July 2015 $'000
Revenue	–	–
Expenses	(421)	(229)
Results from operating activities	(421)	(229)
Tax	–	–
Result from operating activities, net of tax	(421)	(229)
Loss on sale of discontinued operation	(421)	(3,440)
Tax benefit on loss on sale of discontinued operation	–	–
Loss for the year from discontinued operations	**(421)**	**(3,669)**
Basic earnings per share (cents per share)	(0.06)	(0.55)
Diluted earnings per share (cents per share)	(0.06)	(0.55)

Note 6: Revenue

	Year ended 31 July 2016 $'000	Year ended 31 July 2015 $'000
Revenue from the sale of goods		
Gross revenue	98,472	117,252
Less settlement discounts and rebates	(8,163)	(11,417)
	90,309	105,835
Other	558	32
	90,867	105,867

Note 7: Profit for the year

	Note	Year ended 31 July 2016 $'000	Year ended 31 July 2015 Re-stated $'000	Year ended 31 July 2015 Previously Reported $'000
Investment income				
Interest from bank deposits		1	10	10
Rental income received		650	642	642
Total investment income		**651**	**652**	**652**
Impairment of Goodwill and Intangible assets	13/14	6,424	30,066	11,120
Impairment loss recognised on trade receivables		–	715	715
Reversal of impairment loss recognised on trade receivables		(188)	(261)	(261)
Depreciation and amortisation expense				
Depreciation of property, plant & equipment	12	780	570	570
Amortisation of leasehold improvements	12	611	333	333
Amortisation of other intangible assets	14	1,966	2,307	2,307
Amortisation of product development costs		148	262	262
Total depreciation and amortisation expense		**3,505**	**3,472**	**3,472**
Research expensed as incurred		**108**	**129**	**129**
Employee benefits expense				
Post-employment benefits:				
Defined contribution plans (Super)		707	603	603
Share-based payments:				
Equity-settled share-based payments		154	158	158
Termination benefits		337	236	236
Other employee benefits		10,895	10,358	10,358
Total employee benefits expense		**12,093**	**11,355**	**11,355**

Note 8: Income tax

(a) Income tax expense relating to continuing operations

	Year ended 31 July 2016 $'000	Year ended 31 July 2015 $'000
Tax expense comprises:		
Current tax expense in respect of the current year	99	187
Adjustments recognised in the current year in relation to the current tax expense of prior years	–	14
	99	**201**
Deferred tax expense comprises:		
Effect of reversal of previously recognised and unused tax losses	2,177	7,984
Deferred tax (benefit) expense relating to the origination and reversal of temporary differences	(768)	1,428
Adjustments recognised in the current year in relation to the deferred tax of prior years	–	134
Deferred tax reclassified from equity to profit or loss	25	(55)
Total tax expense relating to continuing operations	**1,533**	**9,692**

Note 8: Income tax continued

(b) Income tax recognised in profit or loss

	Year ended 31 July 2016	Year ended 31 July 2015 Re-stated	Year ended 31 July 2015 Previously Reported
	$'000	**$'000**	**$'000**
The expense for the year can be reconciled to the accounting profit as follows:			
Loss from continuing operations	(21,900)	(43,118)	(24,172)
Tax benefit at the Australian tax rate of 30%	(6,570)	(12,935)	(7,252)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:			
Expenses that are not deductible in determining taxable loss	2,542	9,807	4,124
Effect of current year's unrecognised and unused tax losses	3,506	4,924	4,924
Effect of reversal of previously recognised and unused tax losses	2,177	7,984	7,984
Effect on previously unrecognised and unused capital losses		–	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	(81)	(212)	(212)
Other	(41)	(10)	(10)
	1,533	**9,558**	**9,558**
Adjustments recognised in the current year in relation to the deferred tax of prior years	–	134	134
Income tax expense recognised in profit or loss	**1,533**	**9,692**	**9,692**

(c) Income tax recognised directly in equity

Deferred Tax/asset:			
Relating to share issue expenses deductible over 5 years	77	180	180

(d) Current tax balances

	Year ended 31 July 2016	Year ended 31 July 2015
	$'000	**$'000**
Current tax liabilities and assets		
Income tax payable (receivable)/from tax office:		
Other – overseas subsidiaries	(236)	(195)

Note 8: Income tax continued

(e) Deferred tax balances

2016 Temporary differences	Opening Balance	Recognised in Profit & Loss	Recognised in Other Comprehensive Income	Recognised directly in equity	Closing Balance
2016 Gross Deferred Tax Liabilities					
Prepaid royalties	(190)	154	–	–	(35)
FX on foreign operations	(64)	–	62	–	(2)
	(254)	**154**	**62**	**–**	**(37)**
2016 Gross Deferred Tax Assets					
Provisions	745	(509)	–	–	236
Accruals	117	637	–	–	754
Inventory	–	617	–	–	617
Cash flow hedges	119	–	(25)	–	94
Capital raising					
(S40-880)	180	–	–	(103)	77
Tax losses	2,177	(2,177)	–	–	–
Other	29	14	–	–	43
	3,367	**(1,418)**	**(25)**	**(103)**	**1,821**

2015 Temporary differences	Opening Balance	Recognised in Profit & Loss	Recognised in Other Comprehensive Income	Recognised directly in equity	Closing Balance
2015 Gross Deferred Tax Liabilities					
Prepaid royalties	(180)	(10)	–	–	(190)
FX on foreign operations	(54)	–	(10)	–	(64)
	(234)	**(10)**	**(10)**	**–**	**(254)**
2015 Gross Deferred Tax Assets					
Provisions	1,966	(1,221)	–	–	745
Accruals	74	43	–	–	117
Cash flow hedges	54	–	65	–	119
Capital raising					
(S40-880)	315	–	–	(135)	180
Tax losses	10,161	(7,984)	–	–	2,177
Other	84	(55)	–	–	29
	12,654	**(9,217)**	**65**	**(135)**	**3,367**

Note 8: Income tax continued

(e) Deferred tax balances continued

The following deferred tax assets have not been brought to account as assets:

	Year ended 31 July 2016	Year ended 31 July 2015
	$'000	**$'000**
Tax losses – Revenue	82,512	73,663
Tax losses – Capital	53,267	53,267
Unused tax credits	–	–
	135,779	**126,930**

Unrecognised taxable temporary differences associated with investments and interests in subsidiaries

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

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

Tax consolidation

(i) Relevance of tax consolidation to the Group

The Company and its wholly-owned Australian resident entities formed a tax-consolidated Group with effect from 1 January 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated Group is Funtastic Limited. The members of the tax-consolidated Group are identified in Note 25.

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

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

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

Tax losses

As at 31 July 2016 the Australian Group has carried forward revenue tax losses of approximately $82,512,000 (2015: $73,663,000). As at 31 July 2016 a deferred tax asset of $nil (2015: $2,177,000) has been booked relating to revenue tax losses of $nil (2015: $7,257,000). The Company made losses in the current and previous reporting period. Following the assessment of the probability of recovery, having considered forecast future taxable income and current tax legislation with respect to carrying forward revenue tax losses, the full balance of tax losses available at 31 July 2016 of $82,512,000 has not been booked as a deferred tax asset in these financial statements.

Note 9: Current assets – Trade and other receivables

	Year ended 31 July 2016	Year ended 31 July 2015
	$'000	**$'000**
Trade receivables	9,989	12,948
Allowance for doubtful debts	(30)	(260)
Allowance for credit notes, rebates & settlement discounts	(1,852)	(2,891)
	8,107	9,797
Other receivables	245	339
Total Current Receivables	**8,352**	**10,136**

	Year ended 31 July 2016	Year ended 31 July 2015
Age of receivables that are past due but not impaired	**$'000**	**$'000**
30-60 days	56	1,094
61-90 days	15	311
91-120 days	158	274
Total	**229**	**1,679**
Average days	**39**	**60**

The Group does not hold any collateral over these balances.

The Group reviews trade debtors on an ongoing basis and makes a provision against specific debtors based on management's assessment of the debtors' ability to settle the debt.

The Group reviews the provision for credit notes, rebates and settlement discounts on an ongoing basis and makes allowances for individual customers based on historical sales, trading terms and expected returns, settlement discounts and rebates.

Note 9: Current assets – Trade and other receivables continued

Movement in Allowances/Provisions

	Doubtful debts	Rebates, credit notes & settlement discount	Total
	$'000	$'000	$'000
12 months ended 31 July 2016			
Balance at beginning of period	(260)	(2,891)	(3,151)
Provisions raised	–	(8,163)	(8,163)
Utilised	197	9,029	9,226
Reversed	33	173	206
Balance at end of the period	**(30)**	**(1,852)**	**(1,882)**
12 months ended 31 July 2015			
Balance at beginning of period	(763)	(4,242)	(5,005)
Provisions raised	(94)	(9,955)	(10,049)
Utilised	144	11,025	11,169
Reversed	453	281	734
Balance at end of the period	**(260)**	**(2,891)**	**(3,151)**

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

Note 10: Current assets – Inventories

	Year ended 31 July 2016	Year ended 31 July 2015
	$'000	$'000
Stock at NRV	1,898	534
Stock at cost	8,442	16,029
Finished goods	**10,340**	**16,563**

Note 11: Other assets

	Note	Year ended 31 July 2016 $'000	Year ended 31 July 2015 $'000
Current other assets			
Prepaid royalties		118	633
Prepayments		601	1,114
Sale consideration receivable	34	332	332
Prepaid inventory		1,393	1,050
Other		75	243
		2,519	**3,372**
Other non-current assets			
Product development costs		194	103
Trademarks		230	216
Other		–	86
		424	**405**

Note 12: Non-current assets – Plant and equipment

	Year ended 31 July 2016 $'000	Year ended 31 July 2015 $'000
Plant and equipment – at cost	4,673	3,688
Less: accumulated depreciation	(3,345)	(2,604)
	1,328	**1,084**
Leasehold improvements – at cost	1,485	1,971
Less: accumulated amortisation	(1,358)	(1,304)
	127	**667**
	1,455	**1,750**

Note 12: Non-current assets – Plant and equipment continued

Reconciliations

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

	2016			2015		
	P&E	Leasehold	Total	P&E	Leasehold	Total
	$'000	$'000	$'000	$'000	$'000	$'000
12 months ended 31 July 2015						
Cost						
Opening Balance	1,083	667	1,750	669	899	1,568
Additions	866	18	884	1,132	68	1,200
Disposals	(34)	–	(34)	(51)	(7)	(58)
Depreciation/ Amortisation	(780)	(611)	(1,391)	(570)	(333)	(903)
Transfers	–	–	–	(3)	–	(3)
Forex	193	53	246	(94)	40	(54)
Closing Balance	**1,328**	**127**	**1,455**	**1,083**	**667**	**1,750**

Note 13: Non-current assets – Goodwill

	31 July 2016	31 July 2015 Re-stated	31 July 2015 Previously Reported
	$'000	$'000	$'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 the end of financial year	**14,163**	**14,163**	**39,165**

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.

In addition to the requirement to perform the annual test, the Group has identified the following Indicators of impairment at 31 July 2016:

- The financial year result was below budget expectations. This was due to a number of adverse events that have impacted the result significantly. These events included:
  - European customers significantly reducing purchases as a result of poor season sales and business uncertainty as a result of "BREXIT";
  - Slower than anticipated establishment of U.S. distribution partnerships;
  - Delay of key product launches due to delayed quality control assessments, now moved into the FY17 financial year;
  - Key discount department store customers unexpectedly reducing purchases as a result of organisational restructuring and inventory consolidation; and
  - Additional inventory clearances and write-downs during the year.

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

Note 13: Non-current assets – Goodwill continued

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 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:

- EBITDA margin of 5.7% (2015: 5.7%) based upon the forecast product, sales and customer mix and assumptions about the fixed cost base;
- Terminal growth rate of 2.0% (2015: 1.5%) which the Group has assessed based on long term economic growth rates in the key markets in which the CGU operates;
- Post-tax discount rate of 11% (2015: 11%), which reflects the risks specific to the CGU.

Cash flow forecasts for the CGU are based on forecast sales and gross margins for FY2017. The forecast FY2017 sales forecast assumes that the CGU will achieve lower sales than FY2016, but with improved margins due to lower level of inventory clearances. 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. Reduced overheads based on actions already implemented at the commencement of the FY2017 financial year have been used in the assessment.

Outcome of assessment

The assessment completed at 31 July 2016 has resulted in a recoverable amount exceeding the carrying value by $3,096,000. As such, the directors determined that no impairment of goodwill is required.

An impairment to Goodwill of $29,776,000 was incurred in the comparative year ended 31 July 2015. This impairment amount represented the lower impairment charge from the value-in-use impairment assessment undertaken in that financial year and the cross-check to the fair value less cost of disposal, amended at the half-year ended 31 January 2016 (as disclosed in 31 January 2016 Half Year accounts). The prior year assessment was based on the Company's future forecasts and margins for FY16, which was lower than what was forecast in the previous years.

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 July 2016:

	Change in variable	Effect on recoverable amount
		$'000
EBITDA margin	+ 0.5%	3,632
	- 0.5%	(3,632)
Post-tax discount rate	+ 1.0%	(3,078)
	- 1.0%	3,846

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
EBITDA margin	- 0.5%	(536)
Post-tax discount rate	+ 1.0%	–

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.

Note 14: Intangibles

	Year ended 31 July 2016	Year ended 31 July 2015
	$'000	**$'000**
Brand names	**725**	**725**
Software costs	5,846	5,734
Accumulated amortisation and impairment	(5,579)	(4,564)
	267	**1,170**
Chill Factor – Trademarks and patents	10,423	10,423
Accumulated amortisation and impairment	(6,681)	(1,075)
	3,742	**9,348**
Licenses, distribution agreements & supplier relationships	10,694	10,481
Accumulated amortisation and impairment	(8,134)	(6,297)
	2,560	**4,184**
	7,294	**15,427**

As impairment indicators were present for intangible assets, AASB 136 required performance of an impairment assessment of the various other intangibles. This has been performed, based on the royalty relief method by applying a market related royalty rate to the expected future sales and terminal growth rate, which is a level three valuations in the fair value hierarchy. Projected sales were calculated based on approved FY2017 budget and management's view of longer term performance expectations. The estimated product life cycle was included in the calculation.

Key assumptions

The following key assumptions were used:

- Royalty rates based on comparative rates adjusted for key attributes
- Annual growth rate beyond 5 years of 2.5%
- Pre-tax discount rate of 11%
- Estimated useful life of 20 years, except for the confectionery brands considered indefinite useful life

Outcome of assessment

Failure to meet budgeted performance expectations in FY16 and a re-assessment of future performance expectations resulted in an impairment charge of $6,047,000 to the intangibles. A charge of $377,000 was made at the half-year in respect of the Floaties brand, resulting in a full year charge of $6,424,000.

Note 15: Assets pledged as security

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

Note 16: Borrowings

Secured – at amortised cost	Year ended 31 July 2016 $'000	Year ended 31 July 2015 $'000
Current		
Finance lease liabilities	23	130
Trade finance	17,233	22,657
Overdraft	3,694	3,679
Interest bearing liabilities (excluding Bill finance)(i)	20,950	26,466
Bill finance(i)	27,965	15,965
Total Current	48,915	42,431
Non-current		
Finance lease liabilities	–	26
Total Non-current	**–**	**26**
Current borrowings	48,915	42,431
Non-current borrowings	–	26
	48,915	**42,457**

(i) Although the Company's facilities with National Australia Bank (excluding Overdraft facility which expires in June 2017) do not expire until November 2018, they have been classified as current in accordance with accounting standards as there are review clauses in place which are effective in the next 12 months. Had these review clauses not been in place, the bill finance of $27,965,000 would otherwise have been classified as long term.

Note 17: Provisions

	Year ended 31 July 2016 $'000	Year ended 31 July 2015 $'000
Current		
Employee benefits(i)	753	787
Onerous lease contract(ii)	47	188
Licensor audits(iii)	147	105
Total Current	**947**	**1,080**
Non-current		
Employee benefits(i)	60	83
Onerous lease contract(ii)	–	144
Total Non-current	**60**	**227**
Total	**1,007**	**1,307**

Note 17: Provisions continued

	2016		2015	
	Onerous Lease Contract(ii)	Licensor Audits(iii)	Onerous Lease Contract(ii)	Licensor Audits(iii)
	$'000	$'000	$'000	$'000
Opening balance	332	105	508	122
Additional provisions recognised	–	42	–	–
Reductions resulting from remeasurement or settlement without cost	–	–	–	(17)
Reductions arising from payments/other sacrifices of future economic benefits	(285)	–	(176)	–
Closing balance	**47**	**147**	**332**	**105**

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

(ii) Represents the present value of the directors' best estimate of the future outflow of economic benefits that will be required to satisfy obligations in respect to onerous lease contracts (Note 25).

(iii) Product license agreements contain audit rights for licensors. At year end, in respect of licensor audits the Group has provided for the best estimate of amounts payable. The final amounts payable will be subject to negotiation with the licensor and may differ to the amounts provided in the annual report.

Note 18: Other liabilities

	Note	Year ended 31 July 2016 $'000	Year ended 31 July 2015 $'000
Current			
Accrued royalties		1,310	1,031
GST payable		123	63
Lease incentives	24	91	182
Payroll accruals		70	126
Other creditors		238	189
Other accrued expenses		1,441	1,777
Accrued revenue/Sales deposits		479	1,264
Total Current		**3,752**	**4,632**
Non-current			
Lease incentives	24	165	100
Other creditors		–	15
Total Non-current		**165**	**115**

Note 19: Leasing arrangements

The Group leases certain equipment under finance lease arrangements. The average lease term is 5 years. Of the two leases the Group has an option to purchase the equipment at the end of the lease terms in respect to one of the contracts. The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

Interest rates underlying all obligations under finance leases are fixed at respective contract dates are 5.07% (2015:4.67% to 5.10%) per annum.

Finance lease liabilities

	Minimum lease payments		Present value of minimum lease payments	
	Year ended 31 July 2016	Year ended 31 July 2015	Year ended 31 July 2016	Year ended 31 July 2015
	$'000	$'000	$'000	$'000
Not later than one year	26	130	26	130
Later than one year and not later than five years	–	29	–	26
	26	**159**	**26**	**156**
Less: Future finance charges	–	(3)	–	–
Present value of minimum lease payments	**26**	**156**	**26**	**156**

	Note	Year ended 31 July 2016 $'000	Year ended 31 July 2015 $'000
Included in the consolidated financial statements:			
Current borrowings	16	26	130
Non-current borrowings	16	–	26
		26	**156**

Note 20: Issued capital

Group	Year ended 31 July 2016 $'000	Year ended 31 July 2015 $'000
Share Capital		
729,619,723 fully paid ordinary shares (2015: 667,169,723)	**209,483**	**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.

Note 20: Issued capital continued

Details	31 July 2016 Number of Shares	31 July 2016 Share Capital $'000	31 July 2015 Number of Shares	31 July 2015 Share Capital $'000
Movements in Ordinary Share Capital				
Opening balance	686,369,723	208,372	669,869,723	208,372
ESLS 1 cancellations in December 2014	–	–	(400,000)	–
ESLS 2 cancellations in January 2014	–	–	(200,000)	–
Shares issued under ESLS 3 31st July 2015	–	–	17,100,000	–
Shares issued under ESLS 4 19th October 2015	9,110,000	–	–	–
Shares issued under ESLS 5 23rd December2015	18,800,000	–	–	–
Shares issued as part of the Institutional Placement (net of share issue costs)	62,450,000	1,111	–	–
ESLS 4 cancellations on 31 July 2016	(995,000)	–	–	–
Closing balance	**775,734,723**	**209,483**	**686,369,723**	**208,372**
Treasury Shares (ESLS)	**(46,115,000)**	–	**(19,200,000)**	–
	729,619,723	**209,483**	**667,169,723**	**208,372**

Capital raising

The Company undertook a capital raising of $1.2 million ($1.1m net) during the year comprising a non-underwritten institutional share placement $1 m and a share purchase plan $0.2 m. The net proceeds are being used to continue the development and global distribution of the Company's own brands.

Note 21: Earnings per share

	31 July 2016 Cents per share	31 July 2015 Re-stated Cents per share	31 July 2015 Previously Reported Cents per share
Basic earnings per share			
From continuing operations	(3.43)	(7.92)	(5.08)
From discontinued operations	(0.06)	(0.55)	(0.55)
Total Earnings per share	**(3.49)**	**(8.47)**	**(5.63)**
Diluted earnings per share			
From continuing operations	(3.43)	(7.92)	(5.08)
From discontinued operations	(0.06)	(0.55)	(0.55)
Total Earnings per share	**(3.49)**	**(8.47)**	**(5.63)**

Note 21: Earnings per share continued

Basic earnings per share calculation:

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

	31 July 2016	31 July 2015 Re-stated	31 July 2015 Previously Reported
	$'000	$'000	$'000
Net loss after tax for the year – continuing operations	(23,433)	(52,810)	(33,864)
Net loss after tax for the year – discontinued operations	(421)	(3,669)	(3,669)
Loss used in the calculation of total basic EPS	**(23,854)**	**(56,479)**	**(37,533)**

	2016	2015 Re-stated	2015 Previously Reported
	No. '000	No. '000	No. '000
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	683,338	667,170	667,170
Diluted earnings per share calculation:			
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	683,338	667,170	667,170
Add: Shares deemed to be issued for no consideration in respect of:			
Employee Share Loan Scheme	–(i)	–(i)	–(i)
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**683,338**	**667,170**	**667,170**

(i) The potential shares relating to the Employee Share Loan Scheme are anti-dilutive and therefore excluded from the weighted average number of potential ordinary shares.

Note 22: Dividends on equity instruments

There were no dividends declared or paid during the financial year (2015: nil). The franking account balance at 31 July 2016 is $19,302 (2015: $19,302).

Note 23: License guarantee commitments

Under the terms of various License Agreements the Company guarantees the minimum levels of royalty payments. The commitment in relation to these guarantees is as follows:

	Year ended 31 July 2016	Year ended 31 July 2015
	$'000	$'000
Not later than one year	1,424	1,121
Later than one year but not later than two years	524	760
	1,948	**1,881**

Note 24: Operating leases

The operating leases are non-cancellable leases with respect to office and warehouse premises with lease terms of between six months and six years, some with options to extend. All operating leases with options to extend contain market review clauses in the event that the company group exercises its option to renew. The Group and the Company do not have an option to purchase the leased asset at the expiry of the leased period.

Minimum lease payments recognised as an expense:

	Year ended 31 July 2016	Year ended 31 July 2015
	$'000	**$'000**
Minimum lease payments	2,178	2,305
Sub-lease payments received	(566)	(607)
	1,612	**1,698**
Commitments in relation to non-cancellable operating leases contracted for but not capitalised in the accounts are payable as follows:		
No later than 1 year	2,101	2,490
Later than 1 but not later than 5 years	899	1,531
Later than 5 years	–	–
	3,000	**4,021**
Sub-lease receivables in relation to non-cancellable operating leases contracted for but not capitalised in the accounts are receivable as follows:		
No later than 1 year	(566)	(607)
Later than 1 but not later than 5 years	–	(530)
	(566)	**(1,137)**
Net commitments payable under non-cancellable operating leases contracted for but not capitalised in the accounts:		
No later than 1 year	1,535	1,883
Later than 1 but not later than 5 years	899	1,001
	2,434	**2,884**

Liabilities recognised in respect of non-cancellable operating leases

		Year ended 31 July 2016	Year ended 31 July 2015
	Note	**$'000**	**$'000**
Onerous lease contracts:			
Current	17	47	188
Non-current	17	–	144
Lease incentives:			
Current	18	91	182
Non-current	18	165	100
		303	**614**

Note 25: Subsidiaries

Name of Entity	Country of Incorporation	Equity Holding Year ended 31 July 2016 %	Equity Holding Year ended 31 July 2015 %
Company			
Funtastic Limited[(i),(iii)]	Australia	100	100
Subsidiaries			
JNH Australia Pty Limited[(ii),(iii)]	Australia	100	100
Fun International Limited	Hong Kong	100	100
Funtastic International Limited	Hong Kong	100	100
Funtastic (NZ) Pty Limited[(ii),(iii)]	Australia	100	100
Dorcy Irwin Pacific Pty Limited[(iii)]	Australia	100	100
Funtastic Employee Share Loan Scheme Trust[(iv)]	Australia	100	100
Dorcy Investments Pty Limited[(iii)]	Australia	100	100
Irwin Pacific Pty Limited[(ii)]	Australia	100	100
Dorcy NZ Pty Limited[(v)]	New Zealand	50	50
Funtastic USA Pty Limited (formerly Judius Pty Limited)[(ii),(iii)]	Australia	100	100
Funtastic America Inc. (formerly My Paint Box Inc.)	USA	100	100
NSR (HK) Limited[(iii)]	Hong Kong	100	100
Hkeepod (HK) Limited	Hong Kong	100	100
Safety Products International Pty Limited[(ii),(v)]	Australia	100	100
Chill Factor Global Pty Limited[(ii),(iii)]	Australia	100	100
Hydro-Turbine Developments Pty Limited[(ii),(iii)]	Australia	100	100
Fun Toy Products Consulting (Shenzhen) Company Limited	China	100	100

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

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

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

(iv) During 2013 the Board established the Funtastic Employee Share Loan Scheme Trust for the purpose of purchasing and holding shares on behalf of participants in accordance with ESLS Rules. The assets of the scheme are held separately from those of the Company and are administered by trustees appointed by the Company. The Trust is consolidated into the Group financial statements at each reporting date.

(v) The value attributed to the minority interest is $nil (2014: $nil).

Note 25: Subsidiaries continued

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

Statement of profit or loss and other comprehensive income	Year ended 31 July 2016 $'000	Year ended 31 July 2015 Re-stated $'000	Year ended 31 July 2015 Previously Reported $'000
Continuing operations			
Revenue	90,867	105,052	105,867
Cost of goods sold	(65,413)	(76,473)	(77,288)
Gross profit	**25,454**	**28,579**	**28,579**
Investment income	651	652	652
Warehouse and distribution expenses	(5,272)	(7,397)	(7,397)
Marketing and selling expenses	(7,097)	(10,149)	(10,149)
Administration expenses	(16,306)	(12,889)	(12,889)
Impairment of Goodwill and other intangible assets	(6,424)	(30,066)	(11,120)
Earnings before interest, taxation, amortisation and depreciation (EBITDA)	**(8,994)**	**(31,270)**	**(12,324)**
Finance costs	(3,329)	(2,575)	(2,575)
Depreciation and amortisation expenses	(3,254)	(3,194)	(3,194)
Loss before income tax	**(15,577)**	**(37,039)**	**(18,093)**
Income tax expense	(1,305)	(9,316)	(9,316)
Loss for the period from continuing operations	**(16,882)**	**(46,355)**	**(27,409)**
Discontinued operations			
Loss from discontinued operations	**(421)**	**(3,669)**	**(3,669)**
Loss for the year	**(17,303)**	**(50,024)**	**(31,078)**
Other comprehensive income			
Items that subsequently may be reclassified to profit or loss:			
Profit on equity-settled benefits transferred from/taken to equity	67	(53)	(53)
Loss on cash flow hedges taken to equity	58	(215)	(215)
Other comprehensive income (loss) for the year (net of tax)	**125**	**(268)**	**(268)**
Total comprehensive loss for the year	**(17,178)**	**(50,292)**	**(31,346)**

Note 25: Subsidiaries continued

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

Statement of Financial Position	Year ended 31 July 2016 $'000	Year ended 31 July 2015 Re-stated $'000	Year ended 31 July 2015 Previously Reported $'000
Current Assets			
Cash	597	531	531
Trade and other receivables	8,038	9,927	9,927
Inventories	10,340	16,723	16,723
Other assets	22,472	16,438	16,438
Other financial assets	–	38	38
Total Current Assets	**41,447**	**43,657**	**43,657**
Non-current Assets			
Property, plant and equipment	1,380	1,482	1,482
Goodwill	14,163	14,163	39,165
Other intangibles	6,144	14,950	14,950
Other investments	–	–	–
Deferred tax assets	1,821	3,367	3,367
Other assets	244	357	357
Total Non-current Assets	**23,752**	**34,321**	**59,323**
Total Assets	**65,199**	**77,978**	**102,980**
Current Liabilities			
Trade and other payables	9,737	11,596	11,596
Borrowings	48,914	42,431	42,431
Provisions	802	756	756
Other liabilities	3,023	4,462	4,462
Other financial liabilities	313	435	435
Total Current Liabilities	**62,789**	**59,680**	**59,680**
Non-current Liabilities			
Borrowings	–	26	26
Provisions	107	98	98
Deferred tax liabilities	37	254	254
Other liabilities	144	242	242
Total Non-current Liabilities	**288**	**620**	**620**
Total Liabilities	**63,077**	**60,300**	**60,300**
Net Assets	**2,122**	**17,678**	**42,680**
Equity			
Issued capital	209,443	208,372	208,372
Accumulated losses	(209,422)	(192,120)	(167,118)
Reserves	2,101	1,426	1,426
Total Equity	**2,122**	**17,678**	**42,680**

Note 26: Notes to the cash flow statements

(a) Reconciliation of cash and cash equivalents

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

	Year ended 31 July 2016	Year ended 31 July 2015
	$'000	$'000
Cash and cash equivalents	**764**	**904**

(b) Financing facilities

	Year ended 31 July 2016	Year ended 31 July 2015
	$'000	$'000
Total Financing Facilities		
Overdraft	3,700	3,700
Combined Trade Refinance & Letter of Credit	18,000	31,000
Commercial Bill Facility	28,000	15,965
Bank Guarantees	3,300	3,300
Other facilities	1,250	1,250
	54,250	**55,215**
Reconciliation of Finance Facilities		
Used at Balance Date		
Overdraft	3,694	3,679
Combined Trade Refinance & Letter of Credit	17,233	30,935
Commercial Bill Facility	27,965	15,965
Bank Guarantees	2,199	2,199
Other facilities	19	3
	51,110	**52,781**
Unused at Balance Date		
Overdraft	6	20
Combined Trade Refinance & Letter of Credit	767	65
Commercial Bill Facility	36	1
Bank Guarantees	1,101	1,101
Other facilities	1,231	1,247
	3,141	**2,434**

Note 26: Notes to the cash flow statements continued

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

	Year ended 31 July 2016 $'000	Year ended 31 July 2015 Re-stated $'000	Year ended 31 July 2015 Previously Reported $'000
Operating Loss after income tax	(23,854)	(56,479)	(37,533)
Income tax expense recognised in profit or loss	1,533	9,692	9,692
Impairment	6,424	30,066	11,120
Amortisation	1,165	2,569	2,569
Depreciation	2,341	903	903
Finance Costs recognised in profit or loss	3,794	2,992	2,992
Share options expense	154	158	158
Loss on sale of non-current assets	–	38	38
Impairment loss (reversed) recognised on trade receivables	–	(453)	(453)
Interest & Other revenue	(651)	(652)	(652)
Loss for the year from discontinued operations	–	3,440	3,440
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:			
Decrease in trade and other receivables	1,931	6,413	6,413
Decrease in inventories	6,223	1,351	1,351
Decrease in prepayments and other current assets	986	3,220	3,220
Decrease in trade creditors	(1,810)	(7,809)	(7,809)
Decrease in provisions	(1,658)	(62)	(62)
(Decrease)/increase in other liabilities	50	(195)	(195)
Cash (utilised) generated from operations	**(3,372)**	**(4,808)**	**(4,808)**
Income tax paid	(163)	(50)	(50)
Interest paid	(3,794)	(3,022)	(3,022)
Net cash outflow from operating activities	**(7,329)**	**(7,880)**	**(7,880)**

Note 27: Financial instruments

Capital risk management

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

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

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

Significant accounting policies

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

Categories of financial instruments	Year ended 31 July 2016 $'000	Year ended 31 July 2015 $'000
Financial assets		
Derivative instruments in designated hedge accounting relationships	–	38
Cash and cash equivalents	764	904
Loans and receivables	9,931	11,883
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	313	435
Non-derivative financial liability	62,617	58,717

Financial risk management objectives

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

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

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

Note 27: Financial instruments continued

Market risk

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

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

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

In 2016, while there has been a recent stabilisation of low variable interest rates there has been no material change to the Group's exposure to market risk or the manner in which it manages and measures the risk.

Foreign currency risk management

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

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

	Liabilities		Assets	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
US Dollars	7,962	8,698	6,229	5,523
Euro	–	–	8	–
Hong Kong Dollars	229	–	159	363

Foreign currency sensitivity

The Group is mainly exposed to the US dollar, Euro and the HK dollar. The following table details the Group's sensitivity to a 5% increase and 15% decrease in the Australian dollar against the relevant foreign currencies. 5/15% is the sensitivity rate which represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 15% change in foreign currency rates. A positive number indicates an increase in profit or loss where the Australian dollar strengthens against the respective currency. For a weakening of the Australian dollar against the respective currency there would be an equal and opposite impact on profit or loss and the balances below would be equal and opposite. A positive number indicates an increase in other equity where the Australian dollar weakens against the respective currency. For a strengthening of the Australian dollar against the respective currency there would be an equal and opposite impact on other equity and the balances below would be negative.

	USD Impact		EURO Impact	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
5% increase in AUD against foreign currency				
Profit or Loss(i)	(306)	(158)	–	–
15% decrease in AUD against foreign currency				
Profit or Loss(i)	1,133	587	–	–

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

Note 27: Financial instruments continued

Forward foreign exchange contracts

The settlement dates, dollar amounts to be received/(paid) and contractual rates of the Group's outstanding contracts at balance date are:

	Average Exchange Rate		Foreign Currency		Contract Value		Fair Value	
Outstanding contracts	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Buy US dollar		**AUD/USD**	**US $'000**	**US $'000**	**A$'000**	**A$'000**	**A$'000**	**A$'000**
0-12 months	0.7291	0.7826	–	500	–	639	–	677

The Group has entered into contracts to purchase inventory from overseas suppliers. These forward foreign exchange contracts are for terms not exceeding 12 months to hedge the exchange rate risk arising from these anticipated future purchases, which are designated into cash flow hedges.

At balance date, there were no purchase contracts (2015: asset of $38,000).

During the year ended 31 July 2016 a loss on hedging instruments for the Group of $38,000 (31 July 2015: gain $418,000) has been brought to account in other current financial assets and liabilities. An amount, net of tax, was transferred to equity. It is anticipated these purchases will take place during the year to 31 July 2017 at which stage the amount deferred in equity will be included in the carrying amount of the finished goods inventory. It is anticipated that the finished goods inventory will be sold within 12 months after purchase at which stage the amount deferred in equity will impact profit or loss.

Interest rate risk management

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

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

Interest rate sensitivity

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

At reporting date, if interest rates had been 25 basis points higher or 25 basis points lower and all other variables were held constant, the Group's:

- Net profit after taxation would increase/(decrease) by $165,000/($165,000) respectively (2015: $147,000/($147,000)). This is mainly due to the Group's exposure to interest rates on its variable rate borrowings.

Note 27: Financial instruments continued

Interest rate swap contracts

Bank loans of the Group currently bear an average variable interest rate of 6.74% (2015: 7.64%). It is the Group's policy to protect part of the loans from exposure to increasing interest rates. Accordingly, the Group has entered into an interest rate swap contract under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. The contract is settled on a net basis and the net amount receivable or payable at the reporting date is included in financial assets/liabilities.

The floating rate on the interest rate swap is the Australian bank bill swap rate (BBSW).

The contract requires settlement of net interest receivable or payable quarterly. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

The swap currently in place covers 40% (2015: 59%) of the total debt outstanding with its senior lender and is timed to expire on 1 December 2018. The fixed interest rate is 3.09% (2015: 3.09%) and the variable rate is the bank bill rate of the term of the underlying bill which at balance date was 1.90% (2015: 2.11%).

As at 31 July 2016, the notional principal amounts and the periods of expiry of the interest rate swap contracts for the Group were as follows:

	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
	%	**%**	**$'000**	**$'000**	**$'000**	**$'000**
Less than 1 year	–	–		–		–
1-2 years	3.09	3.09	20,000	25,000	(313)	(435)
	3.09	**3.09**	**20,000**	**25,000**	**(313)**	**(435)**

The interest rate swap contract exchanging floating rate interest amounts for fixed rate interest amounts is designated as a cash flow hedge in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swap and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the loan period.

Credit risk management

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

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

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

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

Liquidity risk management

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

Note 27: Financial instruments continued

Liquidity and interest tables – financial liabilities

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

	Weighted average effective interest rate	Less than 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	5+ years	Total
	%	$'000	$'000	$'000	$'000	$'000	$'000
2016							
Non-interest bearing	–	2,031	7,844	3,348	–	–	13,223
Variable interest rate instruments	6.80	2,985	4,840	18,867	–	–	26,692
Fixed interest rate instruments	6.87	4,047	8,360	21,001	–	–	33,408
		9,063	**21,044**	**43,216**	**–**	**–**	**73,323**
2015							
Non-interest bearing	–	2,449	9,292	4,519	–	–	16,260
Variable interest rate instruments	7.64	3,529	6,206	2,379	3,780	–	15,894
Fixed interest rate instruments	7.79	5,335	11,486	2,996	9,038	–	28,855
		11,313	**26,984**	**9,894**	**12,818**	**–**	**61,009**

Note 27: Financial instruments continued

Liquidity and interest tables – financial assets

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

	Weighted average effective interest rate	Less than 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	5+ years	Total
	%	$'000	$'000	$'000	$'000	$'000	$'000
2016							
Non-interest bearing	–	1,641	6,564	1,747	–	–	9,952
Variable interest rate instruments	2.10	764	–	–	–	–	764
		2,405	**6,564**	**1,747**	**–**	**–**	**10,716**
2015							
Non-interest bearing	–	2,027	8,109	1,747	–	–	11,883
Variable interest rate instruments	2.10	904	–	–	–	–	904
		2,931	**8,109**	**1,747**	**–**	**–**	**12,787**

Fair value of financial instruments

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

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

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

Fair value measurements recognised in the consolidated statement of financial position

Fair value measurements are discussed in Note 3 and in the notes specific to that asset or liability.

Note 28: Share-based payments

Executive Share Option Plan (ESOP)

No options were granted under the ESOP plan during the current financial year or preceding financial year. The Executive Share Option Plan (ESOP) was replaced by the Employee Share Loan Scheme (ESLS) established during the 2013 financial year.

The following reconciles the outstanding share options granted under the Executive Share Option Plan at the beginning and end of the financial year:

	2016		2015	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Opening balance 1 August	–	–	1,333,333	0.161
Granted during the financial year	–	–	–	–
Forfeited during the financial year	–	–	–	–
Exercised during the financial year	–	–	–	–
Expired during the financial year	–	–	(1,333,333)	–
Closing balance at 31 July	–	–	–	–
Exercisable at end of year	–	–	–	–

There has been no alteration of the terms and conditions of the above share-based payment arrangements since the grant date.

Unlisted share options

As at 31 July 2016, there were no unlisted share option balances outstanding. No options were granted under the plan during the current financial year or preceding financial year.

The following reconciles the outstanding unlisted share options granted at the beginning and end of the financial year:

	Year Ended 31 July 2016		Year ended 31 July 2015	
	Number of unlisted share options	Weighted average exercise price $	Number of unlisted share options	Weighted average exercise price $
Balance at the beginning of the financial year	–	–	6,333,333	0.121
Granted during the financial year	–	–	–	–
Forfeited during the financial year	–	–	–	–
Exercised during the financial year	–	–	–	–
Expired during the financial year	–	–	(6,333,333)	–
Balance at the end of the financial year	–	–	–	–
Exercisable at the end of the financial year	–	–	–	–

Note 28: Share-based payments continued

Employee Share Loan Scheme

During the 2013 financial year (as part of the Company's LTI arrangements), the Company established the Funtastic Employee Share Loan Scheme (ESLS). At the Board's discretion, eligible employees were invited to participate in the scheme.

The Funtastic Employee Share Loan Scheme Trust (Trust) was established for the purpose of purchasing and holding shares on behalf of participants to satisfy exercises made under the ESLS operated by Funtastic. Under the ESLS, an interest free limited recourse loan (a loan where the participant's risk will be limited to the shares issued to the participant under or in connection with the plan) to the value of the grant date issue price per share was granted to each participant. Each participant directs Funtastic to pay the loan amount to the trustee of the Trust and the trustee to use the loan amount to acquire shares on behalf of the participant, which are held until the exercise date of the option under which they were purchased.

The loan is repayable by the participant when the options become exercisable, being after the vesting date and subject to the satisfaction of the vesting conditions. When the options are exercisable, in the event that the balance of the loan is less than the estimated market value of shares that secure the loan less estimated transaction costs, a participant may request Funtastic to sell the shares on the ASX and that the funds received from the sale of those shares, less any costs incurred in connection with the sale and less the loan balance be remitted to the participant.

The shares are eligible to participate in dividends declared by the Company. Any dividends paid will be utilised to reduce the carrying value of each scheme participant's individual loan balance on the dividend payment date. In the event that the loan balance is greater than the sale proceeds, a participant may request Funtastic to transfer the shares which secure the loan to the participant provided that the participant remits any outstanding balance of the loan to Funtastic as repayment of the loan.

In the event that an employee ceases employment with Funtastic, is entitled to vested shares and does not direct Funtastic to sell or transfer such Shares to the participant and the balance of the loan is greater than the estimated proceeds amount, Funtastic must buy back and cancel such shares with the consideration from the buyback being the full satisfaction of the then outstanding balance of the loan. The participant will have no further entitlements to or in respect of the shares.

No performance conditions are attached to the ESLS and the only vesting condition is a service condition which requires participants to remain in employment until 1 January 2016 for Tranche 1, 27 January 2017 for Tranche 2, 31 July 2018 for Tranche 3, 19 October 2018 for Tranche 4 and 23 December 2018 for Tranche 5. Although there are no performance conditions attached to the ESLS, eligible employees benefit from the scheme through improvements in the share price of the Company, which results from improved performance. The options become exercisable only when the vesting conditions are met. The expiry date of the ESLS options is on the date the employee ceases employment with Funtastic.

The Board has discretion to waive any vesting conditions or other restrictions attached to the ESLS in accordance with the ESLS plan rules provided that such amendments do not unduly prejudice the rights of existing participants.

Note 28: Share-based payments continued

ESLS shares outstanding at the end of the financial year

Tranche	Vesting date	Grant date	Exercise date	Exercise price(ii)	Fair value at grant date	Balance at end of financial year
2016						
Tranche 1	01/01/2016	08/07/2013	01/01/2016	$0.1599	$0.0502	600,000
Tranche 2	27/01/2017	27/01/2014	27/01/2016	$0.1660	$0.0634	1,500,000
Tranche 3	31/07/2018	31/07/2015	31/07/2018	$0.0244	$0.0154	3,600,000
Tranche 4	04/10/2018	19/10/2015	04/10/2018	$0.0300	$0.0199	8,115,000
Tranche 5	23/12/2018	23/12/2015	23/12/2018	$0.0290	$0.0144	18,800,000
						32,615,000
2015						
Tranche 1(i)	01/01/2016	08/07/2013	01/01/2016	$0.1599	$0.0502	600,000
Tranche 2(i)	27/01/2017	27/01/2014	27/01/2017	$0.1660	$0.0634	1,500,000
Tranche 3(i)(iii)	31/07/2018	31/07/2015	31/07/2018	$0.0244	$0.0154	3,600,000
						5,700,000

(i) The expiry date is the date the employee ceases employment with Funtastic whether vested or not. The options granted under the ESLS do not have an expiry date and can be exercised at any date after vesting conditions have been met.

(ii) The exercise price represents the issue price per share offered to participants upon invitation to participate in the ESLS. As part of the ESLS, an interest-free, limited recourse loan to each participant was offered for the purpose of acquiring shares in Funtastic. Further details on the loan are set out above. Dividends paid or payable if any, (less the estimated net tax payable on such dividends) are used or will be used to repay the principal of the loan granted to the participant. No dividends have been paid or are currently payable in relation to the ESLS since the inception of the scheme.

(iii) The ESLS Tranche 3a options disclosed as being granted in the 2015 annual report had not been correctly approved. As such, they were deemed not to be granted during the year and have been removed from the schedules in this report.

Fair value of ESLS options granted

Fair values have been determined in accordance with AASB 2 'Share-based Payments' where the value of options is determined at grant date and are included in remuneration on a proportionate basis from grant date to vesting date. ESLS options are valued using a Black Scholes option pricing model. The model inputs for options granted include:

Option Number	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5
Grant date	8/07/2013	27/01/2014	31/07/2015	4/10/2015	23/12/2015
Vesting date	01/01/2016	27/01/2017	31/07/2018	4/10/2018	23/12/2018
Expiry date	N/A	N/A	N/A	N/A	N/A
Exercise price	$0.1599	$0.1660	$0.0244	$0.0300	$0.0290
Stock price at issue	$0.1599	$0.1660	$0.0290	$0.0360	$0.0284
Expected life (years)	N/A	N/A	N/A	N/A	N/A
Volatility	55.55%	55.55%	72.60%	77.30%	77.50%
Risk free rate	3.00%	3.00%	1.90%	1.84%	2.05%
Dividend yield	N/A	N/A	N/A	N/A	N/A
Vesting period (years)	0.4	2.5	3.0	3.0	3.0
Average fair value at Grant date	$0.0502	$0.0634	$0.0154	$0.0199	$0.0144

Note 28: Share-based payments continued

Fair value of ESLS options granted continued

The following reconciles the outstanding share options granted under the Employee Share Loan Scheme at the beginning and end of the financial year:

	2016		2015	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at the beginning of the financial year	5,700,000	$0.0759	2,700,000	$0.1637
Granted during the financial year	27,910,000	$0.0293	3,600,000	$0.0244
Forfeited/cancelled during the financial year	(995,000)	$0.0300	(600,000)	$0.1619
Exercised during the financial year	–	–	–	–
Expired during the financial year	–	–	–	–
Balance at the end of the financial year	32,615,000	$0.0374	5,700,000	$0.0759
Exercisable at the end of the financial year	600,000	$0.1599	–	–

During the year, 27,910,000 ESLS options were granted to employees. Of the 27,910,000, 18,800,000 ESLS were as a result of cancellation of previously issued options to Directors, approved at the AGM in December 2015.

Aggregate proceeds received from employees on the exercise of options and recognised as issued capital in the financial period was $nil.

Note 29: Key management personnel compensation

Details of key management compensation

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

	Year ended 31 July 2016 $	Year ended 31 July 2015 $
Short-term employee benefits	1,546,329	1,617,563
Post-employment benefits	75,951	76,549
Other long-term benefits	12,858	8,818
Termination benefits	–	–
Share-based payments	110,020	163,599
	1,745,158	**1,866,529**

Note 30: Related party transactions

(a) Equity interests in related parties

Equity interests in subsidiaries.

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 25 to the financial statements.

(b) Transactions with key management personnel

Key management personnel compensation

Details of key management personnel compensation are disclosed in Note 29 to the financial statements.

Loans from key management personnel

There are no outstanding loans from key management personnel.

(c) Transactions with key management personnel of the Group

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

	Year ended 31 July 2016	Year ended 31 July 2015
	$	$
Consolidated revenue includes the following amounts arising from transactions with key management personnel of the Group or their related parties:		
Gross revenue	–	1,854
Interest revenue	–	–
	–	**1,854**
Consolidated profit includes the following amounts arising from transactions with key management personnel of the Group or their related parties:		
Cost of goods sold	–	5,823
Interest expense		–
Other expenses	6,237	1,971
	6,237	**7,794**

The above transactions were performed at arm's length.

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

- Purchases of $5,553 (2015: $1,645) to Annabel Mackenzie a party related to Mr Grant Mackenzie for external consulting;
- Purchases of $684 (2015: $326) for provision of employment services from Sherelle Pizmony a party related to Mr Nir Pizmony;
- Commission revenue of nil (2015: $1,854) and cost of goods sold of nil (2015: $5,823) for product items that were sold on behalf of The 3 of Us Limited an entity related to Mr Nir Pizmony.

Consistent with prior year, Funtastic holds a combined media purchasing arrangement with The Three of Us, which results in advantageous marketing costs. The media purchasing arrangement positions Funtastic to facilitate payment of marketing costs for both Funtastic and The Three of Us, following which The Three of Us reimburses Funtastic for their portion of advertising. A total amount of $343,697 (2015: $2,078,859) was passed through to Funtastic in respect to their arrangements. In this respect Funtastic is acting as an agent for the Three of Us, however earning no margin in the process. Given the substance of this arrangement, there is no impact upon the Group's consolidated profit or loss.

Note 30: Related party transactions continued

(d) Transactions with other related parties

Transactions between Funtastic Limited and other entities in the wholly-owned Group during the financial years ended 31 July 2015 and 31 July 2016, which were eliminated on consolidation, consist of:

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

Note 31: Remuneration of auditors

	Year ended 31 July 2016	Year ended 31 July 2015
	$	$
Auditor of the parent entity		
Audit and review of the financial reports of the entity	190,000	280,000
Audit of the financial report of overseas subsidiary(i)	20,000	20,000
Preparation of tax return and general taxation services	47,000	50,132
Other advisory services	–	100,540
	257,000	**450,672**

The auditor of Funtastic Limited is Deloitte Touche Tohmatsu.

(i) Related practice of parent entity auditor.

Note 32: Parent entity disclosures

Financial Position	Year ended 31 July 2016 $'000	Year ended 31 July 2015 Re-stated $'000	Year ended 31 July 2015 Previously Reported $'000
Assets			
Current assets	27,974	28,693	28,693
Non-current assets	23,731	34,216	59,218
	51,705	**62,909**	**87,911**
Liabilities			
Current liabilities	(60,132)	(57,822)	(57,822)
Non-current liabilities	(288)	(620)	(620)
	(60,420)	**(58,442)**	**(58,442)**
Equity			
Issued capital	209,442	208,372	208,372
Accumulated losses prior to 31 July 2011	(123,755)	(123,755)	(123,755)
Loss reserved from 1 August 2011	(96,436)	(81,972)	(56,970)
Reserves:			
Equity-settled benefits	2,253	2,099	2,099
Cash flow hedging	(219)	(277)	(277)
	(8,715)	**4,467**	**29,469**

Financial Performance	Year ended 31 July 2016 $'000	Year ended 31 July 2015 Re-stated $'000	Year ended 31 July 2015 Previously Reported $'000
(Loss)/profit for the year – continuing operations	(14,045)	(45,879)	(26,933)
Loss for the year – discontinued operations	(421)	(3,669)	(3,669)
Other comprehensive income/(loss)	58	110	110
Total comprehensive loss	**(14,407)**	**(49,438)**	**(30,492)**

Commitments for expenditure

There were no commitments to acquire property, plant and equipment at 31 July 2016. Contingent liabilities as disclosed in Note 34 relate to the parent entity as well as the Group.

Note 33: Subsequent events

There has not been 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 34: Contingent liabilities and assets

In May 2016 Funtastic received notes of proceeding from the Madman Group for alleged breach of warranties in respect of the share sale agreement between the two parties. The Company and its advisors believe there is no substance to the claims and as such will fully defend the claims. Accordingly, no contingent liability is considered necessary.

	Year ended 31 July 2016	Year ended 31 July 2015
Contingent Assets	**$'000**	**$'000**
Final Madman working capital adjustment	**2,527**	**3,042**

As part of the share sale agreement the Company was required to provide final completion accounts and where an objection is received, has a period in which to resolve any amount in dispute. Subsequent to the dispute, an independent accountant was appointed to adjudicate the claims. The Independent Accountant concluded in its final report, that an adjustment amount of $332,000 in Funtastic's favour was payable by MFM.

Funtastic has since sought external opinions on the Independent Accountant's report from a number of reputable independent sources. All opinions are materially consistent with Management's view on the appropriate classification of the disputed adjustments.

The Company has further filed a Statement of Claim, declaring the Independent Accountant made a manifest error in its findings and that the final decision of the Independent Accountant is not conclusive or binding on the parties for the purposes of determining adjustments to the draft completion accounts. Based on current advice, management has written down the deferred consideration receivable to $332,000. The Company is awaiting judgement following the trial held on 31 August 2016. The gross amount claimed, excluding cost recovery and the amount already determined is $2,526,949.

Note 35: General information

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

Additional stock exchange information

as at 27 September 2016

Distribution of equity securities

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

	Ordinary Shares		
Range	**Holders**	**Options**	**Performance share rights**
1-1,000	736	–	–
1,001-5,000	1,270	–	–
5,001-10,000	601	–	–
10,001-100,000	1,017	–	–
100,001 and over	478	18	–
	4,102	**18**	–

Substantial Shareholders

Substantial Shareholders in the Company are set out below:

	Shares	**%**
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	102,757,329	13.481
BELL POTTER NOMINEES LTD <BB NOMINEES A/C>	50,190,414	6.585
PHILRENE PTY LTD <PHILRENE SUPER FUND A/C>	38,049,131	4.992
AET SFS PTY LTD <FUNTASTIC ESLP A/C>	32,615,000	4.279
PIZ BY PIZ PTY LTD	27,853,448	3.654

Additional stock exchange information

continued

Twenty largest quoted equity security holders

		Shares	%
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	102,757,329	13.481%
2	BELL POTTER NOMINEES LTD <BB NOMINEES A/C>	50,190,414	6.585%
3	PHILRENE PTY LTD <PHILRENE SUPER FUND A/C>	38,049,131	4.992%
4	AET SFS PTY LTD <FUNTASTIC ESLP A/C>	32,615,000	4.279%
5	PIZ BY PIZ PTY LTD	27,853,448	3.654%
6	G HARVEY NOMINEES PTY LIMITED	26,470,587	3.473%
7	B4 SNOW PTY LTD <B4 SNOW SUPER FUND A/C>	25,000,000	3.280%
8	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	21,404,667	2.808%
9	CITICORP NOMINEES PTY LIMITED	17,763,833	2.330%
10	G HARVEY NOMINEES PTY LTD <HARVEY 1995 DISCRETIONARY AC>	13,820,687	1.813%
11	MR HOD PIZEM	11,760,234	1.543%
12	PIZ BY PIZ PTY LTD	11,401,470	1.496%
13	MRS ANNABEL JANE MACKENZIE	10,604,120	1.391%
14	MR JASON SOURASIS	10,000,000	1.312%
15	BT PORTFOLIO SERVICES LIMITED <LPS INVESTMENT CO UNIT A/C>	9,000,000	1.181%
16	MR NIR PIZMONY & MRS MARIA LUTGARDA PIZMONY <PIZMONY FAMILY S/F A/C>	8,733,683	1.146%
17	NATIONAL NOMINEES LIMITED	7,269,705	0.954%
18	CJ PRODUCTS LLC	6,959,137	0.913%
19	MR ALFIO BUCCERI	6,691,000	0.878%
20	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,514,472	0.855%

Unquoted equity securities

	Number on Issue	Number of holders
Options issued under the Employee Share Loan Plan	32,615,000	18

Voting rights

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

Ordinary shares

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

Options and performance share rights

No voting rights.

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