Appendix 4D (rule 4.2A.3) – Preliminary Final Report for the Half Year ended 31 January 2017

Name of Entity:	Funtastic Limited
ABN:	94 063 886 199
Current Financial Period Ended:	Six months ended 31 January 2017
Previous Corresponding Reporting Period:	Six months ended 31 January 2016

Results for Announcement to the Market

	2017 $'000	Up/Down	% Movement
Revenue from ordinary activities from continuing operations	40,565	Down	-27.43%
Revenue from ordinary activities from discontinued operations	304	Down	-73.93%
Net loss from ordinary activities after tax from continuing operations	-2,724	Up	5.97%
Net loss from ordinary activities after tax from discontinued operations	-1,676	Up	62.38%
Net loss from ordinary activities after tax from continuing and discontinued operations attributable to members of Funtastic Limited	-4,400	Up	22.23%

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

Net Tangible Liabilities	**31-Jan-17**	**31-Jul-16**
Net tangible assets/ (liabilities) per security	(5.85) cents	(5.28) cents

Other information

This report is based on the consolidated financial statements which have been reviewed by Grant Thornton Audit Pty Ltd.

For a brief explanation of any figures above please refer to the Announcement on the results for the six months ended 31 January 2017 and the attached Half Year Report

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Directors
Shane Tanner
Chairman and Independent Non-Executive Director

Nir Pizmony
Chief Executive Officer / Executive Director

Stephen Heath
Independent Non-Executive Director

Linda Norquay (resigned 3rd March 2017)
Independent Non-Executive Director

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

Company Secretary	Grant Mackenzie
Registered Office	Level 2 Tower 2 Chadstone Place 1341 Dandenong Road Chadstone Vic 3148
Principal Administrative Office	Level 2, Tower 2, Chadstone Place 1341 Dandenong Road Chadstone Vic 3148
Share Registry	Boardroom Limited Grosvenor Place, Level 12, 225 George Street Sydney NSW 2000
Auditors	Grant Thornton Audit Pty Ltd The Rialto Tower, Level 30 525 Collins Street Melbourne Vic 3000
Bankers	National Australia Bank 500 Bourke Street Melbourne Vic 3000
Solicitors	Clarendon Lawyers Level 19, 333 Collins Street Melbourne Vic 3000

The Directors of Funtastic Limited submit herewith the financial report of Funtastic Limited and its subsidiaries (the Group) for the half-year ended 31 January 2017. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

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

- Mr. Shane Tanner
- Mr. Nir Pizmony
- Mr. Stephen Heath
- Ms. Linda Norquay - (Resigned 3rd March 2017)
- Mr. Grant Mackenzie

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

Review of operations

The table below details the contributions from the Group's continuing operations and the effect on the reported results:

	For the Half-year ended	
	31 January 2017	**31 January 2016**
	$'000	**$'000**
Revenue	**40,565**	**55,900**
EBITDA	**914**	**634**
Net Loss before tax	**(1,906)**	**(2,501)**

The benefits of the key initiatives implemented over the last 12 months are starting to deliver the desired results. Following the loss of some key agencies, the company has secured a number of new agencies, which whilst not yet fully implemented, have contributed to the improved margins. In addition, the benefits of the various cost saving initiatives have, despite the reduction in revenue, resulted in an improved EBITDA from continuing operations and operating cashflow.

- Revenue reduced 27.4%
- Gross margin increased from 30.9% to 31.9%
- Operating costs down 26.6%, a saving of $4.4 m (FY16 $16.7m to FY17 $12.3 m)
- EBITDA has risen 44.2%
- Operating Cash inflow of $1.3m, an improvement from net outflows of $5.9 m

The company has continued its efforts to improve its management of working capital resulting in a 31% ($3.2 m) reduction in inventory and lower warehousing costs (warehousing requirements reduced by 45%).

As a result of the reduction in working capital, the company's debt (net of cash on hand) has improved by $0.7 m.

Outlook

We have secured a number of new agencies which will, over time, help to return the company to growth.

We remain committed to the expansion of our own brands through new product development and innovation. Margins will continue to improve with better products, less clearance activity and new channel development.

Further cost reduction initiatives have been implemented, the full benefits of which will materialise over the next twelve months.

We have commenced the process to de-list which will enable the company to reduce costs associated with listing, improve its ability to raise capital and restructure its debt arrangements.

Outlook (continued)

We continue to work closely with the company's main financier The National Australia Bank "NAB" who continue to provide support and are currently in negotiation with in relation to the restructure of its debt.

We are confident that with the addition of new agencies, continued development of our brands, the full benefits of the cost savings initiatives and a restructured Balance Sheet, that the company will return to profits. The implementation of these changes will continue into the second half of this financial year, with the full benefits materialising in 2018.

Dividend

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

Bank

The Company has re-established its banking facilities through to November 2018 with its primary lender, National Australia Bank (NAB). The NAB has provided an increased facility of $3 million ($1 million from a participation agreement with a related entity to Mr. N. Pizmony) as the company continues to renegotiate an improved long term structure of its debt.

Auditor's independence declaration

The auditor's independence declaration is included on page 7 of the half-year report.

Rounding off of amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities & Investments Commission, relating to the 'rounding off' of amounts in the Directors' and the financial report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Future Developments

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

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

On behalf of the Directors:

Shane Tanner
Chairman
Melbourne, 31st March 2017

Grant Thornton

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AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF FUNTASTIC LIMITED

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Funtastic Limited for the half-year ended 31 January 2017, I declare that, to the best of my knowledge and belief, there have been:

a No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b No contraventions of any applicable code of professional conduct in relation to the review.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Brad Taylor
Partner - Audit & Assurance

Melbourne, 31 March 2017

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Half-Year Ended 31 January 2017

	Note	For the half-year ended 31 January 2017 $'000	31 January 2016 $'000
Continuing Operations			
Revenue	2	40,565	55,900
Cost of sales of goods		(27,608)	(38,638)
Gross profit		12,957	17,262
Other Income		217	457
Warehouse and distribution		(2,293)	(2,544)
Marketing and selling		(3,721)	(6,469)
Administration and finance		(6,246)	(7,695)
Earnings before interest, taxation, depreciation and amortisation (EBITDA) excluding impairment		914	1,011
Impairment charge	4	-	(377)
EBITDA		914	634
Depreciation and amortisation expenses		(817)	(1,335)
Finance costs		(2,003)	(1,800)
Loss before income tax		(1,906)	(2,501)
Income tax (expense)		(818)	(67)
Loss for the period from continuing operations		(2,724)	(2,568)
Discontinued operations			
Loss for the period from discontinued operations	8	(1,676)	(1,032)
Loss for the period		**(4,400)**	**(3,600)**
Other comprehensive income (net of tax)			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		(2)	(132)
Fair value gain on cash flow hedges		85	70
		83	(62)
Total comprehensive loss attributable to members of Funtastic Limited		**(4,317)**	**(3,662)**
Earnings per share		**Cents**	**Cents**
From continuing and discontinued operations			
Basic (cents per share)		(0.60)	(0.54)
Diluted (cents per share)		**(0.60)**	**(0.54)**
From continuing operations			
Basic (cents per share)		(0.37)	(0.38)
Diluted (cents per share)		**(0.37)**	**(0.38)**

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

Condensed Consolidated Statement of Financial Position as at 31 January 2017

	Note	As at 31 January 2017 $'000	As at 31 July 2016 $'000
Current Assets			
Cash		**1,823**	**764**
Trade and other receivables		**6,771**	**8,352**
Inventories		**7,121**	**10,340**
Other		**2,438**	**2,519**
Total Current Assets		**18,153**	**21,975**
Non-Current Assets			
Property, plant and equipment		**1,326**	**1,455**
Goodwill	3	**14,163**	**14,163**
Other intangibles	4	**7,217**	**7,294**
Deferred tax assets		**1,035**	**1,821**
Other assets		**421**	**424**
Total Non-Current Assets		**24,162**	**25,157**
Total Assets		**42,315**	**47,132**
Current Liabilities			
Trade payables		**9,916**	**9,805**
Borrowings		**49,252**	**48,915**
Provisions		**890**	**947**
Other		**2,954**	**3,752**
Tax liabilities		**234**	**236**
Other financial liabilities		**192**	**313**
Total Current Liabilities		**63,438**	**63,968**
Non-Current Liabilities			
Provisions		**96**	**60**
Deferred tax liabilities		**106**	**37**
Other		**-**	**165**
Total Non-Current Liabilities		**202**	**262**
Total Liabilities		**63,640**	**64,230**
Net Assets/(Liabilities)		**(21,325)**	**(17,098)**
Equity			
Issued capital	5	**209,483**	**209,483**
Accumulated losses		**(232,304)**	**(227,904)**
Reserves		**1,496**	**1,323**
Total Equity/(Deficiency)		**(21,325)**	**(17,098)**

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

	For the half-year ended	
	31 January 2017	31 January 2016
	$'000	$'000
Cash flows from operating activities		
Receipts from customers	44,216	57,782
Payments to suppliers and employees	(40,865)	(61,926)
Interest and other costs of finance paid	(2,003)	(1,800)
Net cash provided by/ (used in) operating activities	1,348	(5,944)
Cash flows from investing activities		
Payments for property, plant and equipment	(391)	(265)
Payments for intangible assets	(236)	(180)
Net cash used in investing activities	(627)	(445)
Cash flows from financing activities		
Proceeds from borrowings	338	7,448
Repayment of commercial bills	-	(1,000)
Net cash provided by financing activities	338	6,448
Net increase in cash held	1,059	59
Cash and cash equivalents at the beginning of the half-year	764	904
Effect of exchange rate changes on cash held in foreign currencies	-	22
Cash and cash equivalents at the end of the half-year	1,823	985

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

	Share Capital $'000	Accumulated Losses $'000	Foreign Currency Translation Reserve $'000	Equity-settled Employee Benefits Reserve $'000	Cash Flow Hedging Reserve $'000	Total $'000
Balance at 1 August 2015	**208,372**	**(204,050)**	**(1,029)**	**2,099**	**(277)**	**5,115**
Loss for the period	-	(3,600)	-	-	-	(3,600)
Other comprehensive income	-	-	(132)	-	70	(62)
Total comprehensive income / (loss)	**-**	**(3,600)**	**(132)**	**-**	**70**	**(3,662)**
Recognition of share-based payments	-	-	-	58	-	58
Balance at 31 January 2016	**208,372**	**(207,650)**	**(1,161)**	**2,157**	**(207)**	**1,511**
Balance at 1 August 2016	**209,483**	**(227,904)**	**(711)**	**2,253**	**(219)**	**(17,098)**
Loss for the period	-	(4,400)	-	-	-	(4,400)
Other comprehensive income	-	-	(2)	-	85	83
Total comprehensive income / (loss)	**-**	**(4,400)**	**(2)**	**-**	**85**	**(4,317)**
Recognition of share-based payments	-	-	-	90	-	90
Balance at 31 January 2017	**209,483**	**(232,304)**	**(713)**	**2,343**	**(134)**	**(21,325)**

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

NOTE 1: Significant accounting policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB134 'Interim Financial Reporting'. Compliance with AASB134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report and any public announcements made during the half-year in accordance with the continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the Corporations Act 2001.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a Company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, and in accordance with that Class Order amounts in the directors' report and the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2016 annual financial report for the financial year ended 31 July 2016, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Going concern basis

The financial report has been prepared on 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 before income tax from continuing operations of $1,906,000 (2016: $2,501,000) and net operating cash inflow of $1,348,000 (2016: outflow $5,944,000) in the current financial period are an improvement over the same period last financial year. The improvement in the loss before income tax from continuing operations is primarily driven by an improved gross margin, reduced overheads and a lower impairment charge to the Income statement in the current financial year of $ nil (2016: $377,000).

Whilst the result from continuing operations for the first half of the financial year was an improvement over the same period for the prior year, business conditions remain challenging. 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 $45,285,000 (excluding borrowings, the net current asset position is $3,967,000) and a net asset deficiency of $21,325,000 (2016: 17,098,000). Included in the current liabilities is bill finance of $27,965,000. Whilst this facility does not mature until 1 November 2018 along with the total facility, because it has a review date for November 2017, it has been classified as a current liability as at 31st January 2017 in accordance with accounting standards.

Based on the Group's forecasts, the company has secured additional short term funding of $3,000,000 from the NAB ($1 million from a participation agreement with a related entity to Mr. N. Pizmony) in order to meet the Group's fluctuating cashflow. This, together with the flexibility of 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 many new items and operates in many diverse countries. These together with the concentration of the Australian retail environment (where some key customers are going through transformation strategies and facing increased competition) 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.

NOTE 1: Significant accounting policies (continued)

Going concern basis (continued)

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

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.

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 a going concern 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 a going concern.

New and revised Standards and Interpretations

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

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

The adoption of the new and revised Standards has not had any significant impact on the disclosures or the amounts recognised in the Group's condensed consolidated financial statements.

Standards and Interpretations in issue not yet adopted

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

Standard/Interpretation	**Effective for annual reporting periods beginning on or after**	**Expected to be initially applied in the financial year ending**
AASB 9 *'Financial Instruments'*	1 January 2018	31 July 2019
AASB 15 *'Revenue from Contracts with Customers'*	1 January 2018	31 July 2019
AASB 16 '*Leases*'	1 January 2019	31 July 2020
AASB 2015-5 *'Amendments to Australian Accounting Standards arising from AASB 15'*	1 January 2018	31 July 2019
AASB 2014-7 *'Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)'*	1 January 2018	31 July 2019
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
AASB 2016-3 *'Amendments to Australian Accounting Standards – Clarification to AASB 15'*	1 January 2018	31 July 2019
AASB 2016-5 *'Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions'*	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 1: Significant accounting policies (continued)

Key sources of estimation uncertainty

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

- *Impairment of goodwill in continuing business segment*

The Group tests annually or when impairment indicators are identified, whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amount of the cash-generating units has been determined based on value-in-use calculations. These calculations require the use of assumptions. A significant change to these assumptions as reflected in note 3 may affect the recoverable amount of the cash generating units.

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

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

- *Settlement of license audits*

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

- *Recoverability of inventory*

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

- *Taxation losses recognised as asset*

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.

NOTE 2: Segment information

Determination and presentation of operating segments

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

The Group has one reportable segment under AASB 8.

Geographical Information

With the USA now classified as a discontinued operation, the Group operates in two principal geographical areas – Australia and Hong Kong. The Group's revenue from external customers and information by geographical location is as follows:

	Revenue from External Customers		**Non-Current Assets** [i]	
	For the half-year ended		**As at**	
	31 January 2017 $'000	*31 January 2016 $'000*	**31 January 17 $'000**	31 July 2016 $'000
Australia	***33,834***	*44,278*	***21,921***	*22,046*
Hong Kong	***6,731***	*11,622*	***1,203***	*1,270*
Continuing Operations	***40,565***	*55,900*	***23,124***	*23,316*
USA - Discontinued Operation	***304***	*1,166*	***3***	*20*
	40,869	*57,066*	***23,127***	*23,336*

[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 $33,834,000 are revenues of approximately $22,052,000 (2016: $29,011,000), which arose from sales to its three largest customers.

NOTE 3: Non-current assets - Goodwill

	31 January 2017 $'000	31 July 2016 $'000
Carrying amount		
Balance at the beginning of financial year	**14,163**	**14,163**
Impairment losses for the year	**-**	**-**
Balance at period ended	**14,163**	**14,163**

Impairment Assessment

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

The Group has identified the following indicator of impairment at 31 January 2017:

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

As a result, the Group assessed the recoverable amount of the CGU, related goodwill and intangibles at 31 January 2017 using the value-in-use approach.

Impairment testing – Value-in-use

In calculating value-in-use, the cash flows include projections of cash inflows and outflows from continuing use of the Group of assets making up the CGU. The cash flows are estimated for the assets of the CGU's in their current condition and discounted to their present value using a post-tax discount rate that reflects the current market assessments of the risks specific to the CGU. The group uses a 5-year discounted cash flow model with a terminal growth rate for years beyond the forecast period of one year, with a constant rate for years 2 to 5.

Key assumptions

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

- Long term sustainable gross margin of 35% and EBITDA margin of 6.8% based upon the forecast product sales and customer mix and assumptions about the fixed cost base;
- Terminal growth rate of 2.5% which is materially consistent with long term economic growth in the key markets in which the CGU operates; and
- Pre-tax discount rate of 12.5%, which reflects the risks specific to the CGU.

Cash flow forecasts for the CGU are based on forecast sales and gross margins for the next 12 months. The sales forecast assumes that the CGU will achieve lower sales than the previous 12 months. 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. For calendar years 2017 and 2018, the cash flow forecast has been risk adjusted to achieve 90% respectively of the anticipated sustainable EBITDA of 6.8%.

Outcome of assessment

The assessment completed at 31 January 2017 has resulted in a recoverable amount exceeds the carrying value. As such, no impairment has been recognised for the half year ended 31 January 2017 (31 January 2016: $0 was recognised as an impairment of goodwill).

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

Sensitivity analysis

Changes in the key assumptions in the table below would have the following approximate impact on the recoverable amount of the CGU at 31 January 2017:

	Change in variable	Effect on recoverable amount $'000
Gross margin	1.00%	4,941
	-1.00%	-4,941
Post tax discount rate	1.00%	-2,960
	-1.00%	3,704

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

	Change in variable	Effect on profit or loss $'000
Gross margin	-1.00%	-1,330
Post tax discount rate	1.50%	-4,228

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 4: Non-current assets – Intangibles

	For the half year ended 31 January 2017 $'000	For the year ended 31 July 2016 $'000
Software	**359**	**267**
Brand names	**725**	**725**
Chill Factor Trademarks and patents	**3,629**	**3,742**
Licenses, distribution agreements and supplier relationships	**2,504**	**2,560**
Net book value - Intangibles	**7,217**	**7,294**

Impairment testing – Other Intangibles (Brands)

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

Key assumptions

The following key assumptions were used:

- Royalty rates based on comparative rates and adjusted for key brand attributes
- Annual growth rate beyond 5 years of 2.5%
- Pre-tax discount rate of 11.0%; and
- Estimated useful life of 20 years with the exception of the brand names above which have an indefinite useful life

NOTE 5: Issued capital

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

	Number of shares	31 January 2017 Share capital $'000
Opening balance 1 August 2016	**762,234,723**	**209,483**
Shares cancelled ESLS 4 in January 2017	**(1,750,000)**	**-**
Closing balance 31 January 2017	**760,484,723**	**209,483**
Treasury shares	**(30,865,000)**	**-**
Adjusted closing balance	**729,619,723**	**209,483**

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

NOTE 6: Commitments

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

NOTE 7: Subsequent events:

Intention to delist

Subsequent to the period end, the company has commenced the process to delist from the ASX which will enable it to reduce the costs associated with listing, improve its ability to raise capital and restructure its debt arrangements.

Bank

The Company has re-established its banking facilities through to November 2018 with its primary lender, National Australia Bank (NAB). The NAB has provided an increased facility of $3 million ($1 million from a participation agreement with a related entity to Mr. N. Pizmony) as the company continues to renegotiate an improved long term structure of its debt.

There has not been any other matter or circumstance occurring subsequent to the end of the financial period, not already covered in the financial statements, that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

NOTE 8: Discontinued Operations

USA Operation:
After an extensive review, slower than anticipated sales growth and with regards to the costs incurred with servicing the USA market it was decided to close the USA based operation in September 2016 and service the existing customer base from the Hong Kong operation.

Madman Litigation:
Refer to further details outlined in Note 9.

	Period ended 31 January 2017 $'000	Period ended 31 January 2016 $'000
(Loss) / Profit for the period from Discontinued Operations		
Revenue	**304**	1,167
Expenses	**(1,980)**	(2,199)
Loss before tax	**(1,676)**	(1,032)
Attributable income tax expense	**-**	-
Loss for the period from discontinued operations (attributable to owners of the Company)	**(1,676)**	(1,032)
Loss for the period relating to USA discontinued operations	**(1,093)**	(928)
Loss for the period relating to Madman discontinued operations	**(583)**	(104)
	(1,696)	(1,032)
Cash flows from discontinued operations		
Net cash inflows / (outflows) from operating activities	**(308)**	(1,210)
Net cash inflows / (outflows) from investing activities	**-**	(4)
Net cash inflows / (outflows) from financing activities	**338**	1,112
Net cash inflows / (outflows)	**30**	(102)
Net cash inflows / (outflows) relating to USA discontinued operations	**281**	2
Net cash inflows / (outflows) relating to Madman discontinued operations	**(251)**	(104)
	30	(102)

NOTE 9: Contingent Liabilities and Assets

Madman Litigation:

Following the trial in August 2016, in December 2016 the company received a successful judgment against a portion of the disputed working capital adjustment. In a separate process to the trial, two years after the sale, Madman raised additional warranty claims. The Company believed that these claims were unfounded and could be successfully defended. As a result of the trial success and with regards to the warranty action, a mediation process in January 2017 was undertaken. With regards to the time to come to trial, projected legal costs and distraction to management, it was agreed by both parties that costs would lay where they fell and all actions would cease. Accordingly, the contingent asset as disclosed at 31st July 2016 of $2,527,000 is no longer expected to be recovered and in late January, the company has written off the amount receivable of $332,000 and the legal costs incurred.

The directors declare that:

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

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group and complying with accounting standard AASB 134 *Interim Financial Reporting*.

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

Shane Tanner

Chairman

Melbourne, 31 March 2017

Grant Thornton

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Independent Auditor's Review Report
To The Members of Funtastic Limited

We have reviewed the accompanying half-year financial report of Funtastic Limited (the Company), which comprises the condensed consolidated statement of financial position as at 31 January 2017, and the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies, other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 January 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Funtastic Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we complied with the independence requirements of the *Corporations Act 2001*.

Basis for qualified conclusion

A limitation in scope of our review work exists for the reasons described below:

Included within Note 3 of the financial report, the Company has reported Goodwill amounting to $14,163,000. We have been unable to obtain sufficient appropriate audit evidence in respect to forecasts relating to new product revenue and margins to be achieved on these products contained within the Directors' assessment of Goodwill. These uncertainties may require an impairment of Goodwill in the future, should management be unable to achieve these targets.

Qualified Review Conclusion

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

a giving a true and fair view of the consolidated entity's financial position as at 31 January 2017 and of its performance for the half-year ended on that date; and

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the financial report, which indicates that the consolidated entity incurred a net loss of $4,400,000 during the half-year ended 31 January 2017 and, as of that date, the consolidated entity's current liabilities exceeded its current assets by $45,285,000 with a net asset deficiency of $21,325,000. These conditions along with other matters set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern. Therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business, and at amounts stated in the financial report. Our opinion is not modified in relation to this matter.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Brad Taylor
Partner - Audit & Assurance

Melbourne, 31 March 2017