



We help people smile!

2017 Annual Report

For personal use only

Our Story

**Brand Builders,
Global Innovators**

We create, develop and market innovative brands that enrich lifestyles around the world. Our vision is driven by the values of integrity, creativity, innovation and passion.

The heart of what we do is enriching lives and creating long-term business value, by building world-class lifestyle brands on a global scale.

Contents

Chairman's Report	2
Financial Report	6



For personal use only



Chairman's Report



On behalf of the Board of Directors of Funtastic Limited I am pleased to present to you our 2017 Annual Report

Review of operations

During the past three years, the company embarked on a major turnaround strategy to reduce the reliance on the concentrated retail environment in Australia and its high dependency on agency business. Whilst the market environment has continued to be difficult both domestically and internationally the results have been extremely disappointing. However, four significant achievements have been delivered in the last several months that have finally delivered the platform/foundations we have been working towards and effectively enable the company to better influence and control its own future.

1. Debt Level

As announced to the market the company has been in long negotiations with its Bankers the National Australia Bank with regards to the future and structure of the debt. Thanks to the significant support of the NAB who have been with the company over many years, we concluded on 30 August 2017 a debt restructure resulting in a \$36 million reduction by way of a debt forgiveness. The full impact of this is discussed in the recent Capital Raising documents and will be included in the January 2018 half year accounts.

This is a significant outcome for the company as the structure of the balance sheet now has more appropriate gearing levels for a business of its size and it enables the company to be a smaller and more nimble operation.



2.Capital Raising

The debt restructure has allowed the company to go to the market and successfully raise \$8.2 million in equity, completed on the 19 August 2017. The significance of the restructure has allowed the company to resource it balance sheet more appropriately. We welcome both our existing and new shareholders to the expanded registry.

As outlined in the documents, this capital has been used to finalise the debt restructure, and provide the first significant injection of new working capital into the business for several years.

3.Sale of a part of the International Business

On 31 July 2017, an agreement was entered to sell a segment of the International business for \$2.1 million AUD by way of a management buy-out to key personnel based in Hong Kong. This transaction subsequently settled on 7 September 2017. This will result in a general reduction in overheads and major reduction in cash burn of \$3.5 million per annum as the operation has been reduced and streamlined to focus on owned brands and product more aligned to the businesses core values and methods of operation.



Chairman's Report

Continued



4.Reductions in Fixed Costs

The company over the past 18 months has reviewed, refocused and rebuilt its fixed cost base. The changes have included significant staff reductions in head count and exited several leases and long-term contracts that were no longer appropriate and weighed on the businesses bottom line. In June, it relocated its Head Office to smaller premises in Mount Waverley at a cost more appropriate both to the size of the operation and in line with current market conditions. Cumulatively the fixed cost base has been reduced by an annualised \$3.9 million, in addition to the savings from the disposal of the international assets.

The Board's key strategies for FY18 performance include:

1. Enhancing current licencing portfolio by re-establishing key relationships.
2. International foot print to be reset.
3. Strong brand/portfolio management both domestically and internationally.
4. Leverage re-set cost base and balance sheet to attract new business partners for FY19.
5. New and Streamlined Senior management team.

Outlook

Following significant and sustained efforts, the company is now significantly more stable than in previous financial periods, with a better structured Balance Sheet, enhanced internal controls, sound cash management principles, and reduced excess inventories and a significantly lower fixed cost base. The first quarter has started positively and the Board is confident that the company will meet its targets for 2018 as a profitable entity.

As noted last year, the company remains committed to 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 to focus on developing a strong, diverse and relevant range of new and innovative products enabling the company to effectively leverage its cost base.

The Directors would like to thank all our staff, shareholders, bankers, suppliers, key agency partners and customers for their ongoing loyalty, support and patience. We look forward to a much more prosperous FY18.



Shane Tanner
Chairman of the Board

27 October 2017

Contents

Company Information	7	Note 12: Assets held for sale	59
Corporate Governance Statement	8	Note 13: Non-current assets – Plant and equipment	60
Directors' Report	15	Note 14: Non-current assets – Goodwill	60
Remuneration Report (Audited)	21	Note 15: Non-current Assets – Other Intangibles	61
Auditor's Independence Declaration	31	Note 16: Assets pledged as security	62
Independent Auditor's Report	32	Note 17: Borrowings	62
Directors' Declaration	36	Note 18: Provisions	63
Consolidated Statement of Profit or Loss and other Comprehensive Income	37	Note 19: Other Liabilities	64
Consolidated Statement of Financial Position	38	Note 20: Leasing arrangements	64
Consolidated Statement of Changes in Equity	39	Note 21: Equity	65
Consolidated Statement of Cash Flows	40	Note 22: Earnings per share	66
Notes to the Financial Statements	41	Note 23: Dividends on equity instruments	66
Note 1: Significant accounting policies	41	Note 24: License guarantee commitments	67
Note 2: Application of new and revised Accounting Standards	49	Note 25: Operating Leases	67
Note 3: Critical accounting judgments and key sources of estimation uncertainty	50	Note 26: Subsidiaries	68
Note 4: Segment information	51	Note 27: Notes to the cash flow statements	71
Note 5: Discontinued operations	52	Note 28: Financial Instruments	72
Note 6: Revenue	53	Note 29: Share-based payments	77
Note 7: Profit/(Loss) for the year	53	Note 30: Key management personnel compensation	79
Note 8: Income tax	54	Note 31: Related party transactions	79
Note 9: Current Assets – Trade and Other Receivables	57	Note 32: Remuneration of Auditors	80
Note 10: Current assets – Inventories	58	Note 33: Parent entity disclosures	81
Note 11: Other Assets	59	Note 34: Subsequent Events	82
		Note 35: General Information	82
		Additional stock exchange information	83

Company Information

Funtastic
Annual
Report
2017

Directors

Shane Tanner

Chairman and Independent Non-Executive Director

Stephen Heath

Independent Non-Executive Director

Grant Mackenzie

Executive Director and Chief Operating and Financial Officer

Nir Pizmony

*Managing Director and Chief Executive Officer (resigned as CEO 31 July 2017,
Independent non-executive Director effective from 31 July, resigned Director 28 September 2017)*

Linda Norquay

Independent Non-Executive Director (resigned 3 March 2017)

Company Secretary

Grant Mackenzie

Registered Office

Level 2 307 Ferntree Gully Road
Mount Waverley Vic 3149

Principal Administrative Office

Level 2 307 Ferntree Gully Road
Mount Waverley Vic 3149

Share Registry

Boardroom Limited

Grosvenor Place, Level 12,
225 George Street
Sydney NSW 2000

Auditors

Grant Thornton

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

Corporate Governance Statement

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 2017 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 2017 the group's mix of employees was as follows (including 28 international staff in respect of the subsequently divested International Operations):

	Female	Male	Total
General employees	34	10	44
Middle managers	11	12	23
Senior managers	3	8	11
Board	0	4	4
Total	48	34	82

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 (resigned 3 March 2017) 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 (one non-executive director resigned during the period without replacement) 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 pages 15 and 16 of the Annual Report.

Corporate Governance Statement

continued

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 2.3. 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, two of the four directors are considered to be independent. It is the Board's view that Mr Shane Tanner, 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.

Principle 3: Act ethically and responsibly continued

Ethical Compliance

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

Dealings in Funtastic shares by Directors, Officers and Employees

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

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

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

Exceptions to this prohibition can be approved by the 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 now comprised of two non-executive directors: Ms Linda Norquay (Chairman) (resigned 3 March 2017), Mr Shane Tanner and Mr Stephen Heath (appointed Chairman 3 March 2017).

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 the 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.

Corporate Governance Statement

continued

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
 - a review of internal control systems and the operational effectiveness of the policies and procedures related to risk and control.
- evaluating exposure to fraud and monitoring investigations of allegations of fraud or malfeasance;
- reviewing corporate governance practices for completeness and accuracy;
- determining the adequacy and effectiveness of legal compliance systems; and
- providing recommendations as to the reporting of and propriety of related party transactions.

Management Certification 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;
- 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) and Shane Tanner. Ms Linda Norquay resigned 3 March 2017.

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.

Corporate Governance Statement

continued

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

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 2017.

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
(Resigned as CEO 31 July 2017 and
Director on 28 September 2017)

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 Chairman of the Audit, Risk and Compliance Committee, Chairman of the Remuneration and Evaluation Committee and a member of the Nomination 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' Report

continued

Directors continued



Linda Norquay

B. Com, CA, GAICD

Independent Non-Executive Director
(Resigned 3 March 2017)

Appointed to the Board in September 2011 as an Independent Non-Executive Director. Ms Norquay was, until her resignation, 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

Sale of international – The sale of a significant segment of the International business by way of a management buyout was made on 31 July 2017 with settlement effected on 7 September 2017.

Bank debt restructure – After significant and lengthy negotiations, the Group completed a major restructuring of its debt facility with its bankers the National Australia Bank effective on 30 August 2017. The impact of this was a reduction of debt by \$36 million by way of a debt forgiveness.

Capital raising – the company undertook a successful capital raising of \$8.2 million which was completed on 19 September 2017.

The combination of the above and continued overhaul of the fixed cost base has significantly restructured and strengthened the Groups balance sheet for the future.

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 apparel

Key operating achievements:

- Debt restructure and capital raising for a 'Match fit' balance sheet
- Cost base reset – International fixed cost reduction, conversion to fully variable warehousing and headcount reduction.
- Strategic review completed
- Competency, recourse and structural review
- Part sale of international business
- Management restructure

Key financial results from continuing operations:

- NPAT loss of \$29.7 million.
- EBITDA loss of \$5.6 million (excluding impairment charge recognised in the period of \$17.1 m).
- Finance costs reduced to \$3.6 million due to lower interest cost offset by increased debt facility.
- Net debt increased by \$3.6 million.

Directors' Report

continued

Key Financials (Continuing Activities)

AUD'm	FY17	FY16 (restated)	% Change
Revenue	55.7	88.9	▼ 37%
EBITDA	(22.8)	(11.8)	▼ 93%
Loss before Tax	(28.0)	(19.1)	▼ 47%
Net loss after tax	(29.7)	(20.6)	▼ 44%
Basic EPS (cents)	(4.10)	(3.04)	▼ 35%
Dividend per share (cents)	N/A	N/A	N/A
ROE ⁽ⁱ⁾	(15.98%)	(11.42%)	▼ 40%
Net Debt (\$m)	51.9	48.2	▲ 8%
Gearing ⁽ⁱⁱ⁾	(1.02)	(2.82)	▼ 64%

(i) NPAT/average issued capital;

(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 FY17 will have a positive impact in FY18. These include:

- The continued expansion of our own products.
- 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 2017, 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.

Subsequent Events

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 February 2018). In accordance with accounting standards, these facilities have been classified as current in the Company's balance sheet as there is a review in November 2016.

In August 2017, the company finalised its new banking facilities through to 30 September 2018 (Corporate Market Loan of \$2 million with an expiration date of 30 September 2020).

Capital Raising

Post Balance date the company undertook a capital raising of \$8.2 million comprising a pro-rata renounceable Entitlement offer, underwritten by a number of institutional and private investors. The proceeds are being used to reduce short term funding as part of the debt restructure and the provision of additional working capital for the Company.

Share Options

Options granted to directors and executives of the Company

During or since the end of the financial year, no options were granted under the Employee Share Loan Scheme (ESLS) over unissued ordinary shares in the Company to Directors or Executives as part of their remuneration.

Unissued shares under option

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.

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	400,000	\$0.1599	1 January 2016	1 January 2016	N/A
Tranche 2	27 January 2014	500,000	\$0.1660	27 January 2017	27 January 2017	N/A
Tranche 3	31 July 2015	–	\$0.0244	31 July 2018	31 July 2018	N/A
Tranche 4	19 October 2015	3,275,000	\$0.0300	4 October 2018	4 October 2018	N/A
Tranche 5	23 December 2015	3,300,000	\$0.0290	23 December 2018	23 December 2018	N/A
		7,475,000				

Of the 2,400,000 options granted on 8 July 2013, 2,000,000 had been forfeited due to resignations of employment. Of the 2,200,000 options granted on 27 January 2014, 1,700,000 had been forfeited due to resignations of employment. Of the 9,110,000 options granted on 19 October 2015, 5,835,000 had been forfeited due to resignations of employment. Of the 18,800,000 options granted on 23 December 2015, 15,500,000 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.

Directors' Report

continued

Meetings of Directors

The number of meetings of the Company's directors held during the year ended 31 July 2017 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	4	4	18	18	2	2
N Pizmony (Resigned as CEO 31 July 2017)	*	*	17	18	*	*
L Norquay (Resigned 3 March 2017)	2	4	14	14	1	2
S Heath	2	4	16	18	2	2
G Mackenzie	*	*	18	18	*	*

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 2017 (2016: 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 (Resigned as CEO 31 July 2017)	Funtastic Limited	54,988,601	—
S Heath	Funtastic Limited	4,952,802	—
L Norquay (Resigned 3 March 2017)	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 Group 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 32 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*.

Non-audit services continued

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 31 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 Resigned as CEO 31 July 2017
Stephen Heath	Independent Non-Executive Director	Full year
Linda Norquay	Independent Non-Executive Director	Resigned 3 March 2017
Grant Mackenzie	Executive Director Chief Operating Officer, Chief Financial Officer and Company Secretary	Full year
Pedro Sangil Lopez	International Manager	Resigned 31 July 2017

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.

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.

Directors' Report

continued

Remuneration Report (Audited) continued

Remuneration policy for directors and executives continued

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 2017, no Short-Term Incentive ("STI") eligible payments were made (2016: \$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 2017	Year ended 31 July 2016	Year ended 31 July 2015	Year ended ⁽ⁱⁱⁱ⁾ 31 July 2014	Year ended ⁽ⁱⁱⁱ⁾ 31 July 2013
NPAT (\$'000) ⁽ⁱ⁾	(33,466)	(23,854)	(56,479)	(41,763)	13,962
EPS Basic (Cents) ⁽ⁱⁱ⁾	(4.63)	(3.52)	(8.42)	(6.30)	2.58
Diluted EPS (Cents) ⁽ⁱⁱ⁾	(4.63)	(3.52)	(8.42)	(6.30)	2.57
Total Dividends (\$'000)	Nil	Nil	Nil	3,335	2,702
Year End Share Price (\$)	0.006	0.022	0.029	0.077	0.17
Shares on Issue (No.) ^(iv)	723,286,390	723,286,390	667,169,723	667,169,723	642,169,723
Market Capitalisation (\$'000)	4,340	16,052	19,348	51,372	109,169

(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.

Components of Compensation

Fixed Compensation

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

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

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

At risk Compensation

Annual Bonus

- The 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.
- As noted in the FY16 accounts, due to the company's financial position, the executive leadership took a reduction in pay effective 1 June 2016. The reduction in pay was converted to a STI plan subject to the company delivering a net profit before tax for the FY17 financial year. As the company did not meet the target for the FY17 year, no amounts were due or payable.

Remuneration Report (Audited) continued

Components of Compensation continued

At risk Compensation continued

Annual Bonus continued

	Fixed remuneration		Remuneration linked to performance	
	2017	2016	2017	2016
Directors				
Shane Tanner	100%	100%	–	–
Stephen Heath	100%	100%	–	–
Linda Norquay (resigned 3 March 2017)	100%	100%	–	–
Executive Officers				
Grant Mackenzie	100%	100%	–	–
Nir Pizmony (resigned as CEO 31 July 2017)	100%	100%	–	–
Pedro Sangil Lopez (resigned 31 July 2017)	100%	100%	–	–

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 2017 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.

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)

Directors' Report

continued

Remuneration Report (Audited) continued

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

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 29 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.

The ESLS is treated in substance as an option for accounting purposes and is therefore disclosed as share options in the Remuneration report.

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 2017	Vesting date	Exercise date
Share option	ESLS ^{(i), (ii)}	Tranche 1	08/07/2013	N/A	\$0.0502	400,000	01/01/2016	01/01/2016
Share option	ESLS ^{(i), (ii)}	Tranche 2	27/01/2014	N/A	\$0.0634	500,000	27/01/2017	27/01/2017
Share option	ESLS ^{(i), (ii)}	Tranche 3	31/07/2015	N/A	\$0.0154	–	31/07/2018	31/07/2018
Share option	ESLS ^{(i), (ii)}	Tranche 4	19/10/2015	N/A	\$0.0199	3,275,000	04/10/2018	04/10/2018
Share option	ESLS ^{(i), (ii)}	Tranche 5	23/12/2015	N/A	\$0.0144	3,300,000	23/12/2018	23/12/2018
Total						7,475,000		

(i) There are no performance conditions attached to this share. 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 have 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:

Year ended 31 July 2017	Short-term employee benefits			Post-employment benefits	Other long-term employee benefits	Termination Benefits	Share-based payments		Total \$
	Salary and fees \$	Cash Bonus \$	Non-monetary benefits \$	Super-annuation \$	Long service leave \$		Options \$	Options Under Employee Share loan scheme ⁽ⁱ⁾	
Directors									
Shane Tanner	98,880	–	–	–	–	–	–	–	98,880
Stephen Heath	56,697	–	–	5,386	–	–	–	–	62,083
Linda Norquay (Resigned 3 March 2017)	36,050	–	–	–	–	–	–	–	36,050
Nir Pizmony (resigned as CEO 31 July 2017)	290,448	–	–	46,204	69,717	495,892	–	(43,492)	858,769
Grant Mackenzie	328,767	–	–	31,233	6,084	–	–	15,873	381,957
Sub-Totals	810,842	–	–	82,823	75,801	495,892	–	(27,619)	1,437,739
Executives									
Pedro Sangil Lopez (resigned 31 July 2017)	249,582	–	192,202	3,367	–	–	–	(81,140)	364,011
Sub-Totals	249,582	–	192,202	3,367	–	–	–	(81,140)	364,011
TOTALS	1,060,424	–	192,202	86,190	75,801	495,892	–	(108,759)	1,801,750

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

Directors' Report

continued

Remuneration Report (Audited) continued

Remuneration of Key Management Personnel compensation continued

Year ended 31 July 2016	Short-term employee benefits			Post-employment benefits	Other long-term employee benefits	Termination Benefits	Share-based payments		Total
	Salary and fees \$	Cash Bonus \$	Non-monetary benefits \$	Super-annuation \$	Long service leave \$		Options \$	Options Under Employee Share loan scheme	
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

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 2017	Balance at the start of the year	Granted during the year as remuneration	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⁾
Executive Directors						
Nir Pizmony	15,500,000	–	–	(15,500,000)	–	–
Grant Mackenzie	3,600,000	–	–	–	3,600,000	300,000
Executives						
Pedro Sangil Lopez	6,550,000	–	–	(6,550,000)	–	–
Totals	25,650,000	–	–	(22,050,000)	3,600,000	300,000

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

(ii) No options were vested, and exercised or exercisable during FY17.

Remuneration Report (Audited) continued

Key management personnel equity holdings continued

Share options continued

Year ended 31 July 2016	Balance at the start of the year	Granted during the year as remuneration	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⁾
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, and exercised or exercisable during FY16.

No options granted during the year ended 31 July 2017.

The following options were granted during the year ended 30 June 2016.

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.

Directors' Report

continued

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 2017	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	1,000,000	–	–	–	1,000,000	1,000,000
Nir Pizmony	54,988,601	–	–	–	54,988,601	46,254,918
Steven Heath	4,952,802	–	–	–	4,952,802	4,952,802
Linda Norquay (Resigned 3 March 2017)	–	–	–	–	–	–
Grant Mackenzie	11,896,976	–	–	–	11,896,976	1,292,856
Executives						
Pedro Sangil Lopez	7,522,095	–	–	–	7,522,095	–
Totals	80,360,474	–	–	–	80,360,474	53,500,576

(i) Excludes share options issued under the ESLS.

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
Steven 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.

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 and within this Remuneration Report.

Loans from key management personnel

There are no outstanding loans from key management personnel.

(b) Transactions with key management personnel of the Group

Loss 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 2017	Year ended 31 July 2016
	\$	\$
Consolidated profit includes the following amounts arising from transactions with key management personnel of the Group or their related parties:		
Other expenses	2,724	6,237
	2,724	6,237

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 \$1,768 (2016: \$5,553) to Annabel Mackenzie a party related to Mr Grant Mackenzie for external consulting; and
- Purchases of \$956 (2016: \$684) for provision of employment services from Ms. Sherelle Pizmony a party related to Mr Nir Pizmony.

(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 2016 and 31 July 2017, 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.

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 (Resigned as CEO 31 July 2017)

- 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.

Directors' Report

continued

Remuneration Report (Audited) continued

Service Agreements continued

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.

Pedro Sangil Lopez – International Manager (resigned 31 July 2017)

- Term of the agreement – full-time permanent and no specified 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

End of Remuneration Report (Audited)

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

27 October 2017

Auditor's Independence Declaration

Funtastic
Annual
Report
2017



The Rialto, Level 30
525 Collins St
Melbourne Victoria 3000

Correspondence to:
GPO Box 4736
Melbourne Victoria 3001

T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

Auditor's Independence Declaration to the Directors of Funtastic Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Funtastic Limited for the year ended 31 July 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 audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read "Grant Thornton", written over a light blue horizontal line.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in black ink, appearing to read "B L Taylor", written over a light blue horizontal line.

B L Taylor
Partner - Audit & Assurance

Melbourne, 27 October 2017

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Ltd is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities. GTIL is not an Australian related entity to Grant Thornton Australia Limited.

Liability limited by a scheme approved under Professional Standards Legislation.

Independent Auditor's Report



Grant Thornton

The Rialto, Level 30
525 Collins St
Melbourne Victoria 3000

Correspondence to:
GPO Box 4736
Melbourne Victoria 3001

T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.granthornton.com.au

Independent Auditor's Report to the Members of Funtastic Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Funtastic Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 July 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a Giving a true and fair view of the Group's financial position as at 31 July 2017 and of its performance for the year ended on that date; and
- b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Ltd is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities. GTIL is not an Australian related entity to Grant Thornton Australia Limited.

Liability limited by a scheme approved under Professional Standards Legislation.



Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, which indicates that the Group incurred a net loss of \$33,466,000 for the year ended 31 July 2017 and, as of that date, the Group's current liabilities exceeded its current assets by \$55,359,000 with a net asset deficiency of \$50,714,000. 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 Group's ability to continue as a going concern. Therefore, the Group 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.

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Asset impairment testing – refer to Note 3, 14 and 15	
<p>At 31 July 2017 the Group has \$Nil (2016: \$14,163,000) of goodwill and \$4,287,000 in other intangible assets contained within separate cash generating units (CGUs).</p> <p>Management is required to perform an impairment test on goodwill and other finite life intangibles at least annually, and is also required to perform an impairment test on other intangible assets with finite useful lives if indicators of impairment are identified.</p> <p>The Group generated an operating loss in the current financial year which is an indication that goodwill and other intangible assets may be impaired.</p> <p>This area is a key audit matter due to the inherent subjectivity and judgment required in measuring the recoverable amount of goodwill and other intangible assets. Measuring recoverable amount involves judgments about the future results of the underlying products and business as well as the discount and royalty rates applied.</p> <p>The Group recognised an impairment against goodwill totalling \$14,163,000 and other intangible assets totalling \$2,981,000 during the year.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • Reviewing management's valuation models for compliance with AASB 136 <i>Impairment of Assets</i>; • Assessing management's determination of CGU's based on our understanding of how management monitors the entity's operations and makes decisions about groups of assets that generate independent cash flows; • Understanding and documenting management's process for the preparation and review of the value-in-use and 'relief from royalty' models; • Checking the mathematical accuracy of the underlying model calculations; • Assessing the appropriateness of the key inputs used in the calculations and evaluating the reasonableness of the cash flow projections by considering the historical accuracy of the budgeting process; • Assessing the key growth rate assumptions by comparing them to historical results and forecasts and the discount rate by reference to the cost of capital for the Group; • Utilising valuation specialists to review the appropriateness of the models and compliance with the requirements of AASB 136, royalty rates used as well as the discount rate applied; • Performing sensitivity analysis on the models in relation to the projections, discount and growth rate assumptions; and • Assessing the adequacy of the Group's disclosures within the financial statements.

Independent Auditor's Report

continued



Provision for inventory obsolescence – refer to Note 3 and 10

Inventory is a material item within the statement of financial position and is valued using the weighted average cost methodology and is stated at the lower of cost and net realisable value in accordance with AASB 102 Inventories.

Inventory primarily comprises discretionary consumer products, including toys and confectionary, which are susceptible to obsolescence. The determination of the recoverable value and the related provision for obsolescence involves a high level of management judgement.

This area is a key audit matter due to the management judgment required in determining the provision.

Our procedures included, amongst others:

- Documenting our understanding of internal processes and controls associated with the determination of the provision for obsolescence;
- Documenting and understanding the underlying methodology upon which management's provision is based and considered for any changes from the previous year;
- Testing the provision calculation for mathematical accuracy;
- Analysing and challenging management's assessment of the provision required for particular products identified which are deemed to be of higher risk of obsolescence including consideration of sales and aged inventory reports prepared by management; and
- Considering the adequacy of the provision through selecting a sample of inventory items and tracing to the most recent sales invoice to determine whether items are sold less than cost and thus indicative of requiring a provision for stock obsolescence.

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 July 2017, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors' for the Financial Report

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



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

Auditor's Responsibilities for the Audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 18 to 27 of the directors' report for the year ended 31 July 2017.

In our opinion, the Remuneration Report of Funtastic Limited, for the year ended 31 July 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in dark ink, appearing to read "Grant Thornton", positioned above the company name.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in dark ink, appearing to read "B L Taylor", positioned above the name.

B L Taylor
Partner - Audit & Assurance

Melbourne, 27 October 2017

Directors' Declaration

The directors declare that:

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

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

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in Note 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
27 October 2017

Consolidated Statement of Profit or Loss and other Comprehensive Income

for the year ended 31 July 2017

Funtastic
Annual
Report
2017

	Note	31 July 2017 \$'000	31 July 2016 \$'000
Revenue	6	55,707	88,888
Cost of Goods Sold		(38,797)	(63,754)
Gross profit		16,910	25,134
Investment Income	7	439	651
Warehouse and Distribution Expenses		(3,964)	(4,685)
Marketing and Selling Expenses		(6,345)	(10,782)
Administration Expenses		(12,689)	(15,667)
Impairment of Goodwill and Intangible Assets	7	(17,144)	(6,424)
Earnings before interest, taxation, amortisation and depreciation (EBITDA)		(22,793)	(11,773)
Finance Costs		(3,559)	(3,794)
Depreciation and Amortisation Expenses	7	(1,645)	(3,497)
Loss before income tax		(27,997)	(19,064)
Income tax expense	8	(1,690)	(1,533)
Loss for the period from continuing operations		(29,687)	(20,597)
Discontinued operations			
Loss from Discontinued Operations	5	(3,779)	(3,257)
Loss for the year		(33,466)	(23,854)
Other comprehensive income (net of tax)			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		212	318
Gain on cash flow hedges		131	58
Other comprehensive income for the year (net of tax)		343	376
Total comprehensive loss for the year attributable to the members of Funtastic		(33,123)	(23,478)
Loss per share			
Basic loss per share (cents per share)		(4.63)	(3.52)
Diluted earnings per share (cents per share)		(4.63)	(3.52)
Loss per share – continuing operations			
Basic loss per share (cents per share)		(4.10)	(3.04)
Diluted loss per share (cents per share)		(4.10)	(3.04)

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 2017

	Note	31 July 2017 \$'000	31 July 2016 \$'000
Current Assets			
Cash	27	664	764
Receivables	9	2,532	8,684
Inventories	10	7,010	10,340
Other Assets	11	2,744	2,187
		12,950	21,975
Assets classified as held for sale	12	1,653	–
Total Current Assets		14,603	21,975
Non-Current Assets			
Property, Plant and Equipment	13	457	1,455
Goodwill	14	–	14,163
Other Intangibles	15	4,287	7,524
Deferred Tax Asset	8	–	1,821
Other Assets	11	29	194
Total Non-Current Assets		4,773	25,157
Total Assets		19,376	47,132
Current Liabilities			
Trade payables		9,213	9,805
Interest Bearing Liabilities (excluding Bill Finance)	17	24,597	20,950
Bill Finance	17	27,965	27,965
Provisions	18	671	947
Tax Liabilities	8	117	236
Other Financial Liabilities		87	313
Other Liabilities	19	5,417	3,752
		68,067	63,968
Liabilities classified as held for sale	12	1,895	–
Total Current Liabilities		69,962	63,968
Non-Current Liabilities			
Provisions	18	27	60
Deferred Tax Liabilities	8	–	37
Other Liabilities	19	101	165
Total Non-Current Liabilities		128	262
Total Liabilities		70,090	64,230
Net Deficiency		(50,714)	(17,098)
Equity			
Issued capital	21	209,483	209,483
Accumulated Losses		(259,727)	(227,904)
Reserves	21	(470)	1,323
Total Equity		(50,714)	(17,098)

Consolidated Statement of Changes in Equity

for the year ended 31 July 2017

Funtastic
Annual
Report
2017

	Issued 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 2015	208,372	(204,050)	(1,029)	2,099	(277)	5,115
Loss for the year	–	(23,854)	–	–	–	(23,854)
Other comprehensive income	–	–	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)
Loss for the year	–	(33,466)	–	–	–	(33,466)
Other comprehensive income	–	–	212	–	131	343
Total comprehensive income (loss)	–	(33,466)	212	–	131	(33,123)
Recognition of share-based payments	–	–	–	(493)	–	(493)
Transfer of share-based payments	–	1,643	–	(1,643)	–	–
Balance at 31 July 2017	209,483	(259,727)	(499)	117	(88)	(50,714)

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 2017

		31 July 2017	31 July 2016
	Note	\$'000	\$'000
Cash Flows from Operating Activities			
Receipts from customers		61,731	94,773
Payments to suppliers and employees		(60,897)	(98,145)
Cash (utilised) generated from operations		834	(3,372)
Income taxes paid		(25)	(163)
Interest and other costs of finance paid		(3,559)	(3,794)
Net cash outflow from operating activities	27(c)	(2,750)	(7,329)
Cash Flows from Investing Activities			
Interest and other investment income received		439	651
Payments for plant and equipment		(888)	(884)
Payments for other intangible assets		(540)	(325)
Net cash outflow from investing activities		(989)	(558)
Cash Flows from Financing Activities			
Proceeds from borrowings		3,647	7,457
Repayment of commercial bills		–	(1,000)
Proceeds from share issue		–	1,111
Net cash inflow from financing activities		3,647	7,568
Net decrease in Cash Held		(92)	(319)
Cash and cash equivalents at the beginning of the year		764	904
Effects of exchange rate changes on the balance of cash held in foreign currencies		(8)	179
Cash and cash equivalents at the end of the year	27(a)	664	764

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

Notes to the Financial Statements

31 July 2017

Funtastic
Annual
Report
2017

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 26 October 2017.

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.

Whilst the EBITDA loss excluding impairment charges was \$5.6 million, a net loss for the year of \$33.5 million was reported and there is a net asset deficiency of \$50.7 million and net current deficiency of \$55.4 million, management have made significant changes to the business which is expected to result in improved results going forward. These include:

- An improved debt structure through the permanent reduction of \$36 million in bank debt by way of a debt forgiveness subsequent to year end
- Raising further capital of \$8.2 million subsequent to year end
- Changes in the management structure
- Continued focus on cost management
- Sale of the international business which was completed subsequent to year end

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

- Achievement of improved financial results through normal trading and the achievement of budgeted results.
- Continued support of creditors and customers through appropriate trading terms as well as the NAB (National Australia bank).

There is therefore material uncertainty that may cast significant doubt as to whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities in the normal course of business and at the amounts stated in the financial report.

Notwithstanding this uncertainty, the Directors believe that the Group will be able to achieve the required results and are satisfied the Group will continue as a going concern. Accordingly, the financial report has been prepared on a going concern basis.

(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.

Notes to the Financial Statements

continued

Note 1: Significant accounting policies continued

(a) Basis of consolidation *continued*

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

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

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

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

(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.

(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.

Note 1: Significant accounting policies continued

(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.

(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.

Notes to the Financial Statements

continued

Note 1: Significant accounting policies continued

(g) Plant and Equipment *continued*

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

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

Plant and equipment: 2.5 – 10 years

Leasehold improvements: 3 – 5 Years

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

(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 20). 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.

Note 1: Significant accounting policies *continued*

(l) Leased Non-Current Assets *continued*

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 within equity.

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

(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.

Notes to the Financial Statements

continued

Note 1: Significant accounting policies continued

(p) Employee benefits *continued*

(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 10-20 years-indefinite

(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 28 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).

Note 1: Significant accounting policies continued

(s) Derivative financial instruments continued

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.

(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.

(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.

Notes to the Financial Statements

continued

Note 1: Significant accounting policies continued

(u) Financial instruments issued by the Group

(i) Equity instruments

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

(ii) Other financial liabilities

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

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

(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. 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-sell.

Note 1: Significant accounting policies continued

(y) Discontinued operations *continued*

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.

(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) Assets and Liabilities classified as held for sale.

When the group intends to sell a non-current asset or group of assets (a disposal group), and if sale within 12 months is highly probable, the asset or disposal group is classified as "held for sale" and presented separately in the statement of financial position. Liabilities are classified as "held for sale" and presented in the statement of financial position if they are directly associated with a disposal group.

Assets classified as "held for sale" are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. However, some "held for sale assets" such as financial assets or deferred tax assets, continue to be measured in accordance with the Group's accounting policy for those assets. Once classified as "held for sale", the assets are not subject to depreciation or amortisation.

Note 2: Application of new and revised Accounting Standards

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

In the current year, the Group has applied all amendments to AASBs issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2016.

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.

Notes to the Financial Statements

continued

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 which are deemed applicable but not yet effective are listed below, which are deemed applicable to the Group.

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(i)	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 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 – Clarifications 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 have not yet been fully assessed. However, our initial assessments indicate that no material change is expected to result from the applicable of these standards with the exception of AASB 16 Leases.

AASB 16 introduces a single comprehensive on-balance sheet accounting model for lease arrangements that apply to lessors and lessees. This effectively removes the distinction between operating leases (off-balance sheet) and finance leases (on-balance sheet) with the exception for short term leases and leases of low value assets. Lessees will now have to bring operating leases on to the balance sheet and recognise a right-of-use asset (ROU) being the asset that is leased and a corresponding lease liability for the amount used to finance the ROU. Committed payments that are now recognised as rental expense will be replaced by the depreciation of the ROU and the interest expense from the lease liability. The Group is currently assessing the potential impact on the consolidated financial statements when the new standard is mandatorily adopted.

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

In the application of the Group's accounting policies, which are described in Note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation uncertainty

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

Note 3: Critical accounting judgments and key sources of estimation uncertainty *continued*

Key sources of estimation uncertainty *continued*

(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 14).

(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 timing differences recognised as asset and deferral of tax liability

The amount of deferred tax asset in respect of revenue tax losses is determined based upon expected future taxable income, and judgement as to the 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 FY2018, the Group has de-recognised previously capitalised timing differences composing the deferred tax asset as at 31 July 2017 and no longer recognises an amount within the deferred tax asset or provision for deferred tax liability for timing differences. Refer to Note 8 for details.

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	
	Year ended 31-Jul-17	Year ended 31-Jul-16	Year ended 31-Jul-17	Year ended 31-Jul-16
	\$'000	\$'000	\$'000	\$'000
Australia	45,059	68,457	4,698	22,046
Hong Kong	10,648	20,431	75	1,270
USA	1,046	1,976	–	21
	56,753	90,864	4,773	23,337

Notes to the Financial Statements

continued

Note 4: Segment information continued

Information about major customers

Included in revenues of Australia of \$45,059,000 are revenues of approximately \$28,079,230 (2016: \$47,151,600), which arose from sales to that region's three largest customers.

Information about products and services

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

Note 5: 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 operation in September 2016 and service the existing customer base from the Head Office in Australia.

Madman and Wellington Rd

The Losses resulting from Madman arose from the write-off of the amount receivable and legal costs arising out of the dispute around working capital and warranty claims that were settled in January 2017. The losses from Wellington Rd are the result of make good claims from the Landlord at the expiration of the lease agreement. The Wellington Rd property was a property previously used by Madman and sub-let in 2010. The Company has provided the full amount claimed by the Landlord, and is currently assessing its legal position around this claim.

	Year ended 31 July 2017	Year ended 31 July 2016
	\$'000	\$'000
Results of discontinued operation		
Revenue	1,046	1,976
Expenses	(4,825)	(5,233)
Loss before tax	(3,779)	(3,257)
Attributable income tax expense	–	–
Result from operating activities, net of tax	(3,779)	(3,257)
Comprising:		
Discontinued operation – USA	(1,959)	(2,836)
Discontinued operation – Madman & Wellington Rd	(1,820)	(421)
Loss for the year from discontinued operations	(3,779)	(3,257)
Basic loss per share (cents per share)	(0.53)	(0.48)
Diluted loss per share (cents per share)	(0.53)	(0.48)

	Year ended 31 July 2017	Year ended 31 July 2016
	\$'000	\$'000
Cashflow used in discontinued operations		
Net cash used in operating activities	(1,894)	(2,679)

Note 6: Revenue

	Year ended 31 July 2017	Year ended 31 July 2016 Restated
Revenue from the sale of goods	\$'000	\$'000
Gross revenue	60,234	96,231
Less settlement discounts and rebates	(4,986)	(7,899)
	55,248	88,332
Other	459	556
	55,707	88,888

Note 7: Profit/(Loss) for the year

	Note	Year ended 31 July 2017	Year ended 31 July 2016
		\$'000	\$'000
Investment income			
Interest from bank deposits		1	1
Rental income received		438	650
Total investment income		439	651
Impairment of Goodwill and Intangible assets	14/15	17,144	6,424
Reversal of impairment loss recognised on trade receivables		–	(188)
Depreciation and amortisation expense			
Depreciation of property, plant & equipment	13	825	772
Depreciation of leasehold improvements	13	148	611
Amortisation of other intangible assets	15	672	1,966
Amortisation of product development costs		–	148
Total depreciation and amortisation expense		1,645	3,497
Research expensed as incurred		75	108
Employee benefits expense			
Post-employment benefits:			
Defined contribution plans (Super)		572	707
Share-based payments:			
Equity-settled share-based payments expense/(credit)		(493)	154
Termination benefits		478	337
Other employee benefits		9,604	10,895
Total employee benefits expense		10,161	12,093

Notes to the Financial Statements

continued

Note 8: Income tax

(a) Income tax expense relating to continuing operations

	Year ended 31 July 2017	Year ended 31 July 2016
	\$'000	\$'000
Tax expense comprises:		
Current tax expense in respect of the current year	117	99
	117	99
Deferred tax expense comprises:		
Effect of reversal of previously recognised and unused tax losses	–	2,177
Write-off previously recognised DTA	1,573	(768)
Deferred tax reclassified from equity to profit or loss	–	25
Total tax expense relating to continuing operations	1,690	1,533

(b) Income tax recognised in profit or loss

	Year ended 31 July 2017	Year ended 31 July 2016
	\$'000	\$'000
The expense for the year can be reconciled to the accounting profit as follows:		
Loss from continuing operations	(27,997)	(21,900)
Tax benefit at the Australian tax rate of 30%	(8,399)	(6,570)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Expenses that are not deductible in determining taxable loss	5,205	2,542
Effect of current year's unrecognised and unused tax losses	3,614	3,506
Effect of reversal of previously recognised and unused tax losses	–	2,177
Effect of reversal of Deferred Tax balances	1,459	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	(189)	(81)
Other	–	(41)
Income tax expense recognised in profit or loss	1,690	1,533

(c) Income tax recognised directly in equity

Deferred Tax:		
Relating to share issue expenses deductible over 5 years	–	77

Note 8: Income tax continued

(d) Current tax balances

	Year ended 31 July 2017	Year ended 31 July 2016
	\$'000	\$'000
Current tax liabilities and assets	\$'000	\$'000
Income tax payable		
Other – overseas subsidiaries	(117)	(236)

(e) Deferred tax balances

2017 Temporary differences	Opening Balance	Recognised in Profit & Loss	Recognised in Other Comprehensive income	Recognised directly in equity	De-recognition of DTA	Closing Balance
2017 Gross Deferred Tax Liabilities						
Prepaid royalties	(35)	(24)	–	–	59	–
FX on foreign operations	(2)	–	(36)	–	38	–
	(37)	(24)	(36)	–	97	–
2017 Gross Deferred Tax Assets						
Provisions	236	(7)	–	–	(229)	–
Accruals	754	33	–	–	(787)	–
Inventory	617	(158)	–	–	(459)	–
Cash flow hedges	94	–	(68)	–	(26)	–
Capital Raising (\$40-880)	77	(52)	–	–	(25)	–
Other	43	(13)	–	–	(30)	–
	1,821	(197)	(68)	–	(1,556)	–

Notes to the Financial Statements

continued

Note 8: Income tax continued

(e) Deferred tax balances continued

2016 Temporary differences	Opening Balance	Recognised in Profit & Loss	Recognised in Other Comprehensive income	Recognised directly in equity	De-recognition of DTA	Closing Balance
2017 Gross Deferred Tax Liabilities						
Prepaid royalties	(190)	155	–	–	–	(35)
FX on foreign operations	(64)	–	62	–	–	(2)
	(254)	155	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 (\$40-880)	180	–	–	(103)	–	77
Tax Losses	2,177	(2,177)	–	–	–	–
Other	29	14	–	–	–	43
	3,367	(1,418)	(25)	(103)	–	1,821

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

	Year ended 31 July 2017	Year ended 31 July 2016
	\$'000	\$'000
Tax losses – Revenue	97,527	86,363
Tax losses – Capital	53,267	53,267
Unused tax credits	–	–
	150,794	139,630

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 26.

Note 8: Income tax continued

(e) Deferred tax balances continued

Tax consolidation continued

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

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

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

Tax Losses and temporary differences

As at 31 July 2017 the Australian Group has carried forward revenue tax losses of approximately \$97,527,433 (2016: \$86,363,306). As at 31 July 2017 a deferred tax asset of \$nil (2016: \$nil) has been booked relating to revenue tax losses and deferred assets relating to temporary differences of \$nil (2016: \$nil). 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 and temporary differences, the full balance of tax losses available at 31 July 2017 of \$97,527,433 and net deferred tax asset of \$1,556,000 have not been booked as a deferred tax asset in these financial statements.

Furthermore, we note that as a result of the debt restructure subsequent to year end, we anticipate that the tax losses will still be available for utilisation subject to continuing to meet the continuity of ownership or same business test.

Note 9: Current Assets – Trade and Other Receivables

	Year ended 31 July 2017	Year ended 31 July 2016
	\$'000	\$'000
Trade receivables	3,470	9,989
Allowance for doubtful debts	(23)	(30)
Allowance for credit notes, rebates & settlement discounts	(1,265)	(1,852)
	2,182	8,107
Other receivables	350	577
Total Current Receivables	2,532	8,684

	Year ended 31 July 2017	Year ended 31 July 2016
	\$'000	\$'000
Age of receivables that are past due but not impaired	\$'000	\$'000
0-60 days	62	56
61-90 days	102	15
91-120 days	3	158
Total	167	229
Average days	54	39

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.

Notes to the Financial Statements

continued

Note 9: Current Assets – Trade and Other Receivables continued

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.

Movement in Allowances/Provisions

	Doubtful debts	Rebates, credit notes & settlement discount	Total
	\$'000	\$'000	\$'000
12 months ended 31 July 2017			
Balance at beginning of period	(30)	(1,852)	(1,882)
Provisions raised	–	(4,992)	(4,992)
Utilised	7	5,579	5,586
Reversed	–	–	–
Balance at end of the period	(23)	(1,265)	(1,288)
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)

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 2017	Year ended 31 July 2016
	\$'000	\$'000
Stock at cost	8,916	12,561
Obsolescence provision	(1,906)	(2,221)
Stock at NRV	7,010	10,340

Note 11: Other Assets

	Year ended 31 July 2017	Year ended 31 July 2016
	\$'000	\$'000
Current other assets		
Prepaid royalties	197	118
Prepayments	550	601
Prepaid inventory	1,997	1,393
Other	0	75
	2,744	2,187
Other non-current assets		
Product development costs	29	194
	29	194

Note 12: Assets held for sale

On 31 July 2017, an agreement was entered to sell a segment of the International business for \$2.1 million AUD by way of a management buy-out to key personnel based in Hong Kong. This transaction subsequently settled on 7 September 2017.

	Year ended 31 July 2017	Year ended 31 July 2016
	\$'000	\$'000
Current assets		
Receivables	67	–
Inventories	86	–
Other Assets	591	–
Non-current assets		
Property, Plant & Equipment	661	–
Trademarks & Registrations	124	–
Other	124	–
Assets classified as held for sale	1,653	–
Current Liabilities		
Payables	1,816	–
Provisions	79	–
Liabilities classified as held for sale	1,895	–

Notes to the Financial Statements

continued

Note 13: Non-current assets – Plant and equipment

	Year ended 31 July 2017	Year ended 31 July 2016
	\$'000	\$'000
Plant and equipment – at cost	4,332	4,673
Less: accumulated depreciation	(3,875)	(3,345)
	457	1,328
Leasehold improvements – at cost	1,141	1,485
Less: accumulated amortisation	(1,141)	(1,358)
	–	127
	457	1,455

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:

	2017			2016		
	P&E	Leasehold	Total	P&E	Leasehold	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
12 months ended						
Cost						
Opening Balance	1,328	127	1,455	1,083	667	1,750
Additions	823	65	888	866	18	884
Disposals	(47)	(7)	(54)	(34)	–	(34)
Depreciation/ Amortisation	(825)	(148)	(973)	(780)	(611)	(1,391)
Transfers – Held for resale	(617)	(44)	(661)	–	–	–
Forex	(205)	7	(198)	193	53	246
Closing Balance	457	–	457	1,328	127	1,455

Note 14: Non-current assets – Goodwill

	31 July 2017	31 July 2016
	\$'000	\$'000
Carrying Amount		
Balance at the beginning of financial year	14,163	14,163
Impairment losses for the year	(14,163)	–
Balance at the end of financial year	–	14,163

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.

Note 14: Non-current assets – Goodwill continued

In addition to the requirement to perform the annual test, the Group has identified the following Indicators of impairment at 31 July 2017:

- 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:
 - International customers significantly reducing purchases as a result of poor season sales and business uncertainty.
 - Key discount department store customers reducing purchases as a result of organisational restructuring and inventory consolidation.

As a result, the Group assessed the recoverable amount of the CGU and related goodwill and intangibles at 31 July 2017 having regard to 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 in their current condition and discounted to their present value using a pre-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.

Outcome of assessment

In determining the value-in-use, the cash flow forecasts for the CGU were based on forecast sales and gross margins for FY2018. 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 FY2018 financial year have been used in the assessment. However, the cash flow was risk adjusted based on the current year results and uncertainty of future cash flows, resulting in management taking the view to impair the full carrying value of the goodwill.

Assessment of carrying amount

As a result of the assessment of the carrying amount and the significant restructuring of the business, the Directors determined that full impairment of goodwill is appropriate.

Note 15: Non-current Assets – Other Intangibles

	Year ended 31 July 2017	Year ended 31 July 2016
	\$'000	\$'000
Brand names	1,015	1,015
Accumulated amortisation and impairment	(334)	(290)
	681	725
Software costs	6,214	5,846
Accumulated amortisation and impairment	(5,695)	(5,579)
	519	267
Chill Factor – Trademarks and patents	10,423	10,423
Accumulated amortisation and impairment	(9,666)	(6,681)
	757	3,742
Licenses, trademarks, distribution agreements & supplier relationships	10,945	10,924
Accumulated amortisation and impairment	(8,615)	(8,134)
	2,330	2,790
	4,287	7,524

Notes to the Financial Statements

continued

Note 15: Non-current Assets – Other Intangibles continued

Reconciliations

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

	2017				
	Brand Names	Software	Chill Factor Trademarks and Patents	Other Licences and Trademarks	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	725	267	3,742	2,790	7,524
Additions	–	368	–	172	540
Disposals	–	–	–	–	–
Depreciation/Amortisation	(44)	(116)	(226)	(286)	(672)
Impairment	(2,759)	(222)	(2,981)		
Transfers – Held for resale	–	–	–	(124)	(124)
Closing Balance	681	519	757	2,330	4,287

As impairment indicators were present for intangible assets, AASB136 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 valuation in the fair value hierarchy.

Projected sales were calculated based on approved FY2018 budget and management's view of longer term performance expectations. The estimated product life cycle was included in the calculation.

Outcome of assessment

Failure to meet budgeted performance expectations in FY17 and a re-assessment of future performance expectations resulted in an impairment charge of \$2,981,000 to the intangibles. (FY16 \$6,424,000).

Note 16: Assets pledged as security

In accordance with the security arrangements of liabilities as disclosed in Note 17 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 17: Borrowings

	Year ended 31 July 2017	Year ended 31 July 2016
	\$'000	\$'000
Secured – at amortised cost		
Current		
Finance lease liabilities	–	23
Trade finance	6,294	17,233
Overdraft	18,303	3,694
Interest bearing liabilities (excluding Bill finance) ⁽ⁱ⁾	24,597	20,950
Bill finance ⁽ⁱ⁾	27,965	27,965
Total Current	52,562	48,915

Subsequent to the end of the financial year a significant restructuring of the bank debt was completed resulting in the overall debt being reduced by \$36 million by way of a debt forgiveness.

(i) Although the Company's facilities with National Australia Bank (excluding the Overdraft facility which expires in June 2018) do not expire until November 2018, they have been classified as current in accordance with accounting standards as there is a review in November 2017.

Note 18: Provisions

	Year ended 31 July 2017	Year ended 31 July 2016
	\$'000	\$'000
Current		
Employee benefits ⁽ⁱ⁾	671	753
Onerous lease contract ⁽ⁱⁱ⁾	–	47
Licensor audits ⁽ⁱⁱⁱ⁾	–	147
Total Current	671	947
Non-current		
Employee benefits ⁽ⁱ⁾	27	60
Total Non-current	27	60
Total	698	1,007

	2017		2016	
	Onerous Lease Contract ⁽ⁱⁱ⁾	Licensor Audits ⁽ⁱⁱⁱ⁾	Onerous Lease Contract ⁽ⁱⁱ⁾	Licensor Audits ⁽ⁱⁱⁱ⁾
	\$'000	\$'000	\$'000	\$'000
Opening balance	47	147	332	105
Additional provisions recognised	–	–	42	
Reductions resulting from re-measurement or settlement without cost	–	(147)	–	–
Reductions arising from payments/other sacrifices of future economic benefits	(47)	–	(285)	–
Closing balance	–	–	47	147

(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.

Notes to the Financial Statements

continued

Note 19: Other Liabilities

		Year ended 31 July 2017	Year ended 31 July 2016
	Note	\$'000	\$'000
Current			
Accrued royalties		1,652	1,310
GST payable		21	123
Lease incentives	25	26	91
Payroll accruals		77	70
Other creditors		49	238
Other accrued expenses		3,018	1,441
Accrued revenue/Sales Deposits		574	479
Total Current		5,417	3,752
Non-current			
Lease incentives	25	101	165
Total Non-current		101	165

Note 20: Leasing arrangements

The Group at the Balance date did not have any finance leases.

Finance lease liabilities

	Minimum Lease payments		Present value of minimum lease payments	
	Year ended 31 July 2017	Year ended 31 July 2016	Year ended 31 July 2017	Year ended 31 July 2016
	\$'000	\$'000	\$'000	\$'000
Not later than one year	–	26	–	26
Later than one year and not later than five years	–	–	–	–
	–	26	–	26
Less: Future finance charges	(3)	(3)		
Present value of minimum lease payments	–	23	–	23

		Year ended 31 July 2017	Year ended 31 July 2016
	Note	\$'000	\$'000
Included in the consolidated financial statements:			
Current borrowings	17	–	23
		–	23

Note 21: Equity

Issued Capital

	Year ended 31 July 2017	Year ended 31 July 2016
Group	\$'000	\$'000
Share Capital		
723,286,390 fully paid ordinary shares (2016: 723,286,390)	209,483	209,483

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.

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

Details	31 July 2017		31 July 2016	
	Number of Shares	Share Capital \$'000	Number of Shares	Share Capital \$'000
Movements in Ordinary Share Capital				
Opening balance	762,234,723	209,483	686,369,723	208,402
ESLS 1 cancellations	(200,000)	–	–	–
ESLS 2 cancellations	(1,000,000)	–	–	–
ESLS 3 cancellations	(3,600,000)	–	(13,500,000)	–
ESLS 4 cancellations	(4,840,000)	–	(995,000)	(30)
ESLS 5 cancellations	(15,500,000)	–	–	–
Unlisted options	(6,333,333)	–	–	–
Shares issued under ESLS 4 19 October 2015	–	–	9,110,000	–
Shares issued under ESLS 5 23 December 2015	–	–	18,800,000	–
Shares issued as part of the Institutional Placement (net of share issue costs)	–	–	62,450,000	1,111
Closing balance	730,761,390	209,483	762,234,723	209,483
Treasury Shares (ESLS)	(7,475,000)	–	(38,948,333)	–
	723,286,390	209,483	723,286,390	209,483

Note: ESLS refers to the Employee Share Loan Scheme

Foreign currency translation reserve

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

Equity settled employee benefits reserve

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

Cash flow hedging reserve

The hedging reserve is used to record gains and losses on interest rate swaps that are designed and qualify as cash flow hedges and that are recognised in other comprehensive income

Notes to the Financial Statements

continued

Note 22: Earnings per share

	31 July 2017	31 July 2016
	Cents per share	Cents per share
Basic loss per share		
From continuing operations	(4.10)	(3.04)
From discontinued operations	(0.53)	(0.48)
Total loss per share	(4.63)	(3.52)
Diluted loss per share		
From continuing operations	(4.10)	(3.04)
From discontinued operations	(0.53)	(0.48)
Total loss per share	(4.63)	(3.52)

Basic earnings per share calculation:

	31 July 2017	31 July 2016 Restated
	\$'000	\$'000
Net loss after tax for the year – continuing operations	(29,687)	(20,597)
Net loss after tax for the year – discontinued operations	(3,779)	(3,257)
Loss used in the calculation of total basic EPS	(33,466)	(23,854)

	2017	2016 Restated
	No. '000	No. '000
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic loss per share	723,286	676,988
Diluted earnings per share calculation:		
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic loss per share	723,286	676,988
Add: Shares deemed to be issued for no consideration in respect of:		
Employee Share Loan Scheme	–	–
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	723,286	676,988

(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 23: Dividends on equity instruments

There were no dividends declared or paid during the financial year (2016: nil). The franking account balance at 31 July 2017 is \$19,302 (2016: \$19,302).

Note 24: 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 not already recognised is as follows:

	Year ended 31 July 2017	Year ended 31 July 2016
	\$'000	\$'000
Not later than one year	839	1,424
Later than one year but not later than two years	380	524
	1,219	1,948

Note 25: Operating Leases

The operating leases are non-cancellable leases with respect to office and warehouse premises with lease terms of between six months and five 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 2017	Year ended 31 July 2016
	\$'000	\$'000
Minimum lease payments	1,694	2,178
Sub-lease payments received	(472)	(566)
	1,222	1,612
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	267	2,101
Later than 1 but not later than 5 years	918	899
Later than 5 years	–	–
	1,185	3,000
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)
Later than 1 but not later than 5 years	–	–
	–	(566)
Net commitments payable under non-cancellable operating leases contracted for but not capitalised in the accounts:		
No later than 1 year	267	1,535
Later than 1 but not later than 5 years	918	899
	1,185	2,434

Notes to the Financial Statements

continued

Note 25: Operating Leases continued

Liabilities recognised in respect of non-cancellable operating leases

	Note	Year ended 31 July 2017 \$'000	Year ended 31 July 2016 \$'000
Onerous lease contracts:			
Current	18	–	47
Non-current	18	–	–
		–	47
Lease incentives:			
Current	19	26	91
Non-current	19	101	165
		127	303

Note 26: Subsidiaries

Name of Entity	Country of Incorporation	Equity Holding	
		Year ended 31 July 2017 %	Year ended 31 July 2016 %
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
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 Legislative Instrument 96/785 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 (2016: \$nil).

Note 26: Subsidiaries continued

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

	Year ended 31 July 2017	Year ended 31 July 2016
	\$'000	\$'000
Statement of profit or loss and other Comprehensive Income		
Continuing operations		
Revenue	55,803	90,867
Cost of goods sold	(43,625)	(65,413)
Gross profit	12,178	25,454
Investment income	438	651
Warehouse and distribution expenses	(3,963)	(5,272)
Marketing and selling expenses	(6,085)	(7,097)
Administration expenses	(8,672)	(16,306)
Impairment of Goodwill and other intangible assets	(17,144)	(6,424)
Impairment of related party loans	(21,370)	–
Earnings before interest, taxation, amortisation and depreciation (EBITDA)	(44,618)	(8,994)
Finance costs	(3,112)	(3,329)
Depreciation and amortisation expenses	(1,450)	(3,254)
Loss before income tax	(49,180)	(15,577)
Income tax (expense)	(1,690)	(1,305)
Loss for the period from continuing operations	(50,870)	(16,882)
Discontinued operations		
Loss from discontinued operations	(1,820)	(421)
Loss for the year	(52,690)	(17,303)
Other comprehensive income		
<i>Items that subsequently may be reclassified to profit or loss:</i>		
Loss on cash flow hedges taken to equity	131	58
Other comprehensive income (loss) for the year (net of tax)	131	58
Total comprehensive loss for the year	(52,559)	(17,245)

Notes to the Financial Statements

continued

Note 26: Subsidiaries continued

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

	Year ended 31 July 2017	Year ended 31 July 2016
	\$'000	\$'000
Statement of Financial Position		
Current Assets		
Cash	354	597
Trade and other receivables	4,396	8,038
Inventories	7,011	10,340
Other assets	1,098	22,472
Total Current Assets	12,859	41,447
Non-current Assets		
Property, plant and equipment	469	1,380
Goodwill	–	14,163
Other intangibles	3,546	6,144
Deferred tax assets	–	1,821
Other assets	–	244
Total Non-Current Assets	4,015	23,752
Total Assets	16,874	65,199
Current Liabilities		
Trade and other payables	8,897	9,737
Borrowings	52,561	48,914
Provisions	631	802
Other liabilities	5,007	3,023
Other financial liabilities	88	313
Total Current Liabilities	67,184	62,789
Non-Current Liabilities		
Provisions	26	107
Deferred tax liabilities	–	37
Other liabilities	101	144
Total Non-Current Liabilities	127	288
Total Liabilities	67,311	63,077
Net (Deficiency)/Assets	(50,437)	2,122
Equity		
Issued capital	209,443	209,443
Accumulated losses	(259,909)	(209,422)
Reserves	29	2,101
Total Equity	(50,437)	2,122

Note 27: 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 2017	Year ended 31 July 2016
	\$'000	\$'000
Cash	8	8
Cash equivalents	656	756
	664	764

(b) Financing facilities

	Year ended 31 July 2017	Year ended 31 July 2016
	\$'000	\$'000
Total Financing Facilities		
Overdraft	18,634	3,700
Combined Trade Refinance & Letter of Credit	7,000	18,000
Commercial Bill Facility	27,965	28,000
Bank Guarantees	3,300	3,300
Other facilities	1,250	1,250
	58,149	54,250
Reconciliation of Finance facilities		
Used at Balance Date		
Overdraft	18,303	3,694
Combined Trade Refinance & Letter of Credit	6,294	17,233
Commercial Bill Facility	27,965	27,965
Bank Guarantees	2,165	2,199
Other facilities	–	19
	54,727	51,110
Unused at Balance Date		
Overdraft	331	6
Combined Trade Refinance & Letter of Credit	706	767
Commercial Bill Facility	–	36
Bank Guarantees	1,135	1,101
Other facilities	1,250	1,231
	3,422	3,141

Notes to the Financial Statements

continued

Note 27: 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 2017	Year ended 31 July 2016
	\$'000	\$'000
Operating Loss after income tax	(33,466)	(23,854)
Income tax expense recognised in profit or loss	1,690	1,533
Impairment	17,144	6,424
Amortisation	672	1,165
Depreciation	973	2,341
Loss on assets disposed	55	—
Share options (benefit)/expense	(493)	154
Other revenue	(439)	(651)
Unrealised FX loss on revaluation of Plant and equipment	198	—
<i>Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:</i>		
Decrease in trade and other receivables	6,151	1,931
Decrease in inventories	3,331	6,223
Decrease in prepayments and other assets	(392)	986
Decrease in assets held for sale	(744)	—
Decrease in trade creditors	(593)	(1,810)
Decrease in provisions	(309)	(1,658)
(Decrease)/increase in other liabilities	1,602	50
(Increase) in liabilities held for sale	1,895	—
Cash (utilised) generated from operations	(2,725)	(7,166)
Income tax paid	(25)	(163)
Net cash outflow from operating activities	(2,750)	(7,329)

Note 28: 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 17, 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.

Note 28: Financial Instruments continued

	Year ended 31 July 2017	Year ended 31 July 2016
	\$'000	\$'000
Categories of financial instruments		
Financial assets		
Cash and cash equivalents	664	764
Loans and receivables	3,887	9,931
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	87	313
Non-derivative financial liability	69,125	62,617

Financial risk management objectives

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

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

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

Market risk

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

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

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

In 2017, 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	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
US Dollars	5,810	7,962	863	6,229
Euro	97	—	—	8
Hong Kong Dollars	42	229	—	159

Notes to the Financial Statements

continued

Note 28: Financial Instruments continued

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

	USD Impact	
	2017	2016
	\$'000	\$'000
5% increase in AUD against foreign currency		
Profit or Loss ⁽ⁱ⁾	(295)	(306)
5% decrease in AUD against foreign currency		
Profit or Loss ⁽ⁱ⁾	295	306

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

Forward foreign exchange contracts

At balance date, there were no purchase contracts (2016: asset of \$nil).

During the year ended 31 July 2017 a loss on hedging instruments for the Group of \$25,000 (31 July 2016: loss \$38,000) has been brought to account.

Interest rate risk management

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

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

Interest rate sensitivity

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

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 \$131,000/(\$131,000) (post debt restructure and capital raise the sensitivity changes to \$37,500/(\$37,500) respectively (2016: \$122,000/(\$122,000)). This is mainly due to the Group's exposure to interest rates on its variable rate borrowings.

Interest Rate Swap Contracts

Bank loans of the Group currently bear an average variable interest rate of 5.61% (2016: 6.74%). 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).

Note 28: Financial Instruments continued

Interest Rate Swap Contracts continued

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 29% (2016: 40%) of the total debt outstanding with its senior lender and is timed to expire on 1 December 2017. The fixed interest rate is 3.09% (2016: 3.09%) and the variable rate is the bank bill rate of the term of the underlying bill which at balance date was 1.65% (2016: 1.9%).

As at 31 July 2017, 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	
	2017	2016	2017	2016	2017	2016
	%	%	\$'000	\$'000	\$'000	\$'000
Less than 1 year	3.09	–	15,000	–	(87)	–
1-2 years	–	3.09	–	20,000	–	(313)
	3.09	3.09	15,000	20,000	(87)	(313)

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.

Notes to the Financial Statements

continued

Note 28: Financial Instruments continued

Liquidity and interest tables – financial liabilities

The following table detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes only 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
2017							
Non-interest bearing	–	3,042	6,425	–	–	–	9,467
Variable interest rate instruments	5.61	2,381	6,913	43,268	–	–	52,562
		5,423	13,338	43,268	–	–	62,029
2016							
Non-interest bearing	–	2,031	7,844	3,348	–	–	13,223
Variable interest rate instruments	6.8	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

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
2017							
Non-interest bearing	–	1,334	1,862	–	–	–	3,196
		1,334	1,862	–	–	–	3,196
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

Note 28: Financial Instruments continued

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 approximates their fair values.

Fair value measurements recognised in the consolidated statement of financial position

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

Note 29: 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.

Unlisted Share Options

As at 31 July 2017, there were no unlisted share option balances outstanding. No options were granted under the plan during the current financial year or preceding financial year.

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.

Notes to the Financial Statements

continued

Note 29: Share-based payments continued

Employee Share Loan Scheme continued

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.

The ESLS is treated in substance as an option for accounting purposes and is therefore disclosed as share options in the Remuneration Report.

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
2017						
Tranche 1	01/01/2016	08/07/2013	01/01/2016	\$0.1599	\$0.0502	400,000
Tranche 2	27/01/2017	27/01/2014	27/01/2017	\$0.1660	\$0.0634	500,000
Tranche 3	31/07/2018	31/07/2015	31/07/2018	\$0.0244	\$0.0154	—
Tranche 4	04/10/2018	19/10/2015	04/10/2018	\$0.0300	\$0.0199	3,275,000
Tranche 5	23/12/2018	23/12/2015	23/12/2018	\$0.0290	\$0.0144	3,300,000
						7,475,000
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	27/01/2017	\$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

- (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.

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) ⁽ⁱ⁾	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 29: 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:

	2017		2016	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at the beginning of the financial year	32,615,000	\$0.0374	19,200,000	\$0.0397
Granted during the financial year	–	–	27,910,000	\$0.0293
Forfeited/cancelled during the financial year	(25,140,000)	\$0.0350	(14,495,000)	\$0.0248
Exercised during the financial year	–	–	–	–
Expired during the financial year	–	–	–	–
Balance at the end of the financial year	7,475,000	\$0.045	32,615,000	\$0.0374
Exercisable at the end of the financial year	900,000	\$0.1633	600,000	\$0.1599

During the year, no ESLS options were granted to employees.

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

Note 30: 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 2017	Year ended 31 July 2016
	\$	\$
Short-term employee benefits	1,252,626	1,546,329
Post-employment benefits	86,190	75,951
Other long-term benefits	75,801	12,858
Termination benefits	495,892	–
Share-based payments	(108,759)	110,020
	1,801,750	1,745,158

Note 31: 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 26 to the financial statements.

(b) 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.

Notes to the Financial Statements

continued

Note 31: Related party transactions continued

(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 2017	Year ended 31 July 2016
	\$	\$
Consolidated profit includes the following amounts arising from transactions with key management personnel of the Group or their related parties:		
Other expenses	2,724	6,237
	2,724	6,237

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 \$1,768 (2016: \$5,553) to Annabel Mackenzie a party related to Mr Grant Mackenzie for external consulting; and
- Purchases of \$956 (2016: \$684) for provision of employment services from Sherelle Pizmony a party related to Mr Nir Pizmony.

In prior years, Funtastic held a combined media purchasing arrangement with The Three of Us, which resulted in advantageous marketing costs. This agreement terminated mid FY16. The media purchasing arrangement positioned 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 \$nil (2016: \$343,697) was passed through to Funtastic in respect to their arrangements.

(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 2016 and 31 July 2017, 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 32: Remuneration of Auditors

	Year ended 31 July 2017	Year ended 31 July 2016
	\$	\$
Auditor of the parent entity		
Audit and review of the financial reports of the entity	165,000	190,000
Audit of the financial report of overseas subsidiary ⁽ⁱ⁾	20,000	20,000
Preparation of tax return and general taxation services	30,000	47,000
	215,000	257,000

The auditor of Funtastic Limited is Grant Thornton Audit Pty Ltd. The auditor for 2016 was Deloitte Touche Tohmatsu.

(i) Related practice of parent entity auditor.

Note 33: Parent entity disclosures

	Year ended 31 July 2017	Year ended 31 July 2016
	\$'000	\$'000
Financial Position		
Assets		
Current assets	12,859	41,447
Non-current assets	4,015	23,752
	16,874	65,199
Liabilities		
Current liabilities	(67,184)	(62,789)
Non-current liabilities	(127)	(288)
	(67,311)	(63,077)
Net (Deficiency)/assets	(50,437)	2,122
Issued capital	209,443	209,443
Accumulated losses	(259,909)	(209,422)
Reserves:		
Equity-settled benefits	117	2,320
Cash flow hedging	(88)	(219)
	(50,437)	2,122

	Year ended 31 July 2017	Year ended 31 July 2016 Restated
	\$'000	\$'000
Financial Performance		
(Loss) for the year – continuing operations	(50,870)	(16,882)
Loss for the year – discontinued operations	(1,820)	(421)
Other comprehensive income	131	58
Total comprehensive loss	(52,559)	(17,245)

Commitments for expenditure

There were no commitments to acquire property, plant and equipment at 31 July 2017.

Notes to the Financial Statements

continued

Note 34: Subsequent Events

Sale of international – The sale of a significant segment of the International business by way of a management buyout was made on 31 July 2017 with settlement effected on 7 September 2017.

Bank Debt restructure – After significant and lengthy negotiations, the Group completed a major restructuring of its debt facility with its bankers the National Australia Bank effective on 30 August 2017. The impact of this was a reduction of debt by \$36 million by way of a debt forgiveness.

Capital raising – The company undertook a successful capital raising of \$8.2 million which was completed on 20 September 2017.

The combination of the above and continued overhaul of the fixed cost base has significantly restructured and strengthened the Group's balance sheet for the future.

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 26 September 2017

Funtastic
Annual
Report
2017

Distribution of equity securities

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

Range	Ordinary Shares		
	Holders	Options	Performance share rights
1 – 1,000	693	–	–
1,001 – 5,000	1,112	–	–
5,001 – 10,000	504	–	–
10,001 – 100,000	819	–	–
100,001 and over	556	9	–
	3,684	9	–

Substantial Shareholders

Substantial Shareholders in the Company are set out below:

	Shares	%
1 Merrill Lynch (Australia) Nominees Pty Limited	280,993,966	11.561%
2 G Harvey Nominees Pty Ltd <Harvey 1995 Discretionary AC>	276,420,014	11.373%
3 RBC Investor Services Australia Nominees Pty Ltd <VFA A/C>	221,231,905	9.102%
4 Philrene Pty Ltd <Philrene Super Fund A/C>	144,439,706	5.943%
5 Kooyongkoot Pty Limited <L Mathieson Family A/C>	97,398,724	4.007%

Additional stock exchange information

continued

Twenty largest quoted equity security holders

		Shares	%
1	Merrill Lynch (Australia) Nominees Pty Limited	280,993,966	11.561%
2	G Harvey Nominees Pty Ltd <Harvey 1995 Discretionary AC>	276,420,014	11.373%
3	RBC Investor Services Australia Nominees Pty Ltd <VFA A/C>	221,231,905	9.102%
4	Philrene Pty Ltd <Philrene Super Fund A/C>	144,439,706	5.943%
5	Kooyongkoot Pty Limited <L Mathieson Family A/C>	97,398,724	4.007%
6	Mrs Annabel Jane Mackenzie	83,129,958	3.420%
7	Jaszac Investments Pty Ltd <Jason Sourasis Investment A/C>	53,493,968	2.201%
8	BT Portfolio Services Limited <LPS Investment Co Unit A/C>	51,800,000	2.131%
9	Bell Potter Nominees Ltd <BB Nominees A/C>	50,190,414	2.065%
10	Mr Shane Francis Tanner & Ms Lisa Jane Wheeler <Tanner Super Fund A/C>	44,195,175	1.818%
11	Mr Steven Douglas Leighton <The S F & G Family A/C>	40,000,000	1.646%
12	Citicorp Nominees Pty Limited	39,968,467	1.644%
13	HSBC Custody Nominees (Australia) Limited	37,528,971	1.544%
14	Mr Anton Whitehead	36,871,984	1.517%
15	AET SFS Pty Ltd <Funtastic ESLP A/C>	29,925,000	1.231%
16	Heath Nominees (Aust) Pty Ltd <The Heath Family A/C>	28,746,554	1.183%
17	BNP Paribas Nominees Pty Ltd <IB AU Noms Retailclient Drp>	28,679,559	1.180%
18	Piz By Piz Pty Ltd	27,853,448	1.146%
19	B4 Snow Pty Ltd <B4 Snow Super Fund A/C>	25,000,000	1.029%
20	Vision Tech Nominees Pty Ltd	24,000,000	0.987%

Unquoted equity securities

	Number on Issue	Number of holders
Options issued under the Employee Share Loan Plan	7,475,000	9

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.

For personal use only



2/307 Ferntree Gully Road
Mount Waverley VIC 3149

T: +61 (0)3 8569 9000

F: +61 (0)3 8569 9111

E: info@funtastic.com.au

www.funtastic.com.au



For personal use only